

# Commonwealth of Massachusetts



## Comprehensive Annual Financial Report

*For the Fiscal Year Ended June 30, 2014*

***Martin J. Benison, CGFM***  
*Comptroller of the Commonwealth*

*This document and related information are available at*



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Arthur Smith Covered Bridge – Colrain  
Photo Credit: Massachusetts Office of Travel and Tourism

# Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

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# ***Introductory Section***

*(Unaudited)*



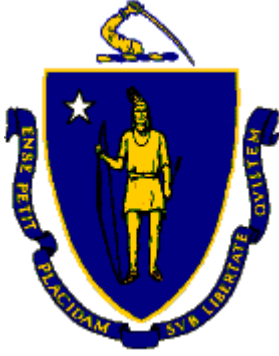
## ***BU Bridge, Boston***

***Letter of Transmittal  
Constitutional Officers  
Commonwealth Organizational Structure  
Advisory Board to the Comptroller  
Acknowledgements  
Certificate of Achievement***



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*Martin J. Benison, Comptroller  
One Ashburton Place  
Boston, MA 02108*

***December 23, 2014***

***To the Citizens of the Commonwealth of Massachusetts,  
Governor Deval L. Patrick and Honorable Members of the  
General Court***

I am pleased to transmit the Commonwealth's fiscal year 2014 (FY14) Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. The objective of this report is to provide a clear picture of our government as a single, unified entity.

This document presents the Commonwealth's financial information on three bases of accounting, each serving a different purpose. The back of the report includes "required supplementary information" budgetary basis statements, which are prepared in accordance with the Commonwealth's budgetary basis of accounting or statutory basis. More detailed information on the statutory basis of accounting and the results of operating on that basis from FY14 are found in the Statutory Basis Financial Report (SBFR) issued separately this past November. The SBFR report documents compliance with the legislatively adopted budget at a fund level. Further documentation is found within the Commonwealth's accounting system, the Massachusetts Management Accounting and Reporting System (MMARS). Each state maintains different rules for budgetary reporting and therefore the SBFR should not be used for comparison across states.

The fund perspective statements present the governmental operations on a modified accrual basis of accounting. The fund perspective is designed to measure inter-period equity, the extent to which current resources (available within the next year) fully fund all current services provided by the government. Long-term liabilities are excluded with the implicit assumption that future tax revenues will fund these liabilities as they come due. This fund perspective provides results similar to the statutory basis financial statements published in November.

In addition to the fund perspective, this CAFR presents a government-wide perspective. This perspective combines all governmental and business-type activities in a statement of net position and a statement of activities, presenting all functions on a full accrual basis of accounting. All capital assets are added to the government-wide statements as are all long-term liabilities. Funds that are shown as fiduciary under the fund perspective are not portrayed in the government-wide statements, as the assets do not belong to the Commonwealth.

In the government-wide statements, the balance sheet has been organized into a "net position format." This format classifies all assets and liabilities as short and long-term and then subtracts liabilities from assets to arrive at net position.

The Commonwealth's government-wide revenues, expenses and activities are included in the statement of activities. The expenses of the Commonwealth, organized by function, are netted against fees, fines, grant revenues and assessments generated to fund each function in an attempt to derive the net cost to the taxpayer of each function. This format allows the reader of the financial statements to discern the net cost of a particular function of government funded by taxation and other general revenues by a review of this statement.

This CAFR is presented in three sections: **Introductory**, **Financial** and **Statistical**. The **Introductory Section** contains an overview of current initiatives and summary financial data. The **Financial Section** contains the Management's Discussion and Analysis (MD&A) section and the Commonwealth's Basic Financial Statements. GAAP requires that management provide a narrative overview and analysis to accompany the basic financial statements in the form of an MD&A. This letter of transmittal is designed to complement the MD&A, where the financial analysis is presented. The Commonwealth's MD&A can be found immediately following the independent auditors' report. The **Statistical Section** contains selected financial and demographic information. It also contains background information on the Commonwealth.

## PROFILE OF THE COMMONWEALTH

The Commonwealth of Massachusetts was the sixth of the original 13 colonies to ratify the United States Constitution, joining the United States on February 6, 1788. Boston, the capital of the Commonwealth since its founding, dates from 1630. The Commonwealth has an area of 8,257 square miles. Geographically, the Commonwealth includes 351 cities and towns. The largest city is the capital, Boston. Employment is largely in the education, health services, wholesale and retail trade, financial and public sectors. Due to the Commonwealth's high levels of basic education and the presence of world-class educational institutions, the Commonwealth's economy is driven in large part by innovation in high technology, life sciences, health care and business services.

The Massachusetts Constitution was ratified in 1780 while the Revolutionary War was still in progress, nine years before the United States Constitution was adopted, and is the oldest written Constitution now in use. It specified three branches of Government: Legislative, Executive, and Judicial. "The Great and General Court," elected every two years, is made up of a Senate of forty members and a House of Representatives of one hundred and sixty members. It is the second oldest democratic deliberative body in the world.

The table on page 3 reconciles the fund balances on three bases of accounting: the statutory basis presented in separately issued financial statements this past November; the fund basis; and the entity-wide basis statements, the latter two of which are included in this report.

**Governmental Funds - Statutory to GAAP - Fund Perspective and to Governmental Net  
Position  
(Amounts in millions)**

**Governmental Funds - Statutory Basis, June 30, 2014:**

Budgeted Fund Balance.....	\$ 1,450.5
Non Budgeted Special Revenue Fund Balance.....	2,269.9
Capital Projects Fund Balance.....	<u>(1,101.2)</u>

**Governmental Fund Balance - Statutory Basis, June 30, 2014..... \$ 2,619.2**

Plus: Expendable Trust and Similar Fund Statutory Balances that are considered Governmental Funds for GAAP reporting purposes.....	467.9
Less: Massachusetts Department of Transportation Funds.....	<u>(1,292.2)</u>

**Adjusted Statutory Governmental Fund Balance..... 1,795.0**

Short term accruals, net of allowances and deferrals for increases /(decreases):

Taxes, net of refunds and abatements.....	\$ 1,951.6
Tobacco Settlement Agreement receivable.....	126.8
Medicaid.....	(355.2)
Other short term accruals:	
Assessments and other receivables.....	280.6
Amounts due to authorities and municipalities, net.....	(576.9)
Claims, judgments and other risks.....	(33.2)
Amounts due to health care providers and insurers.....	(78.5)
Workers' compensation and group insurance.....	(133.3)
Other accruals, net.....	<u>469.2</u>

**Net increase to governmental fund balances..... 1,651.1**

**Massachusetts School Building Authority fund balance..... 1,173.3**

**Total changes to governmental funds..... 2,824.4**

**Governmental fund balance (fund perspective)..... \$ 4,619.4**

Plus: Capital assets including infrastructure, net of accumulated depreciation.....	4,572.6
Deferred revenue, net of other eliminations.....	682.2

Long term accruals:

Pension Benefits cumulative over / (under) funding.....	(2,219.0)
Post employment benefits other than pensions cumulative over / (under) funding.....	(4,832.0)
Environmental Remediation Liability.....	(217.3)
Massachusetts School Building Authority debt and school construction payables.....	(7,403.8)
Long term debt, unamortized premiums and deferred losses on debt refundings.....	(23,109.6)
Compensated Absences.....	(527.2)
Capital leases.....	(55.9)
Accrued interest on bonds.....	(353.3)
Other Long term liabilities.....	<u>(115.8)</u>

**Total governmental net position (entity wide perspective)..... \$ (28,959.7)**

The deficit of \$28.960 billion in governmental net position is largely attributable to the Commonwealth's policy decision to finance the construction of assets owned by other government entities, particularly Commonwealth roads and bridges, which as a result of transportation reform completed during FY10 shifted these assets from the books of the Commonwealth to the Massachusetts Department of Transportation (MassDOT), a component unit of the Commonwealth. At the end of FY14, MassDOT held \$22.798 billion in road, bridge and other transportation-related assets (excluding assets of the Massachusetts Bay

Transportation Authority) net of related depreciation, the vast majority of which were formerly held by the Commonwealth. Those assets were financed by the Commonwealth and the debt remains a long-term obligation of the Commonwealth. In addition, the Commonwealth has a net liability of \$6.174 billion for debt and grant obligations for the School Building Assistance Program that finances construction of schools for the Commonwealth's cities and towns. Finally, the Commonwealth has financed significant transportation and non-transportation assets currently held by Massachusetts Institutions of Higher Education, Massachusetts' cities and towns and quasi-public authorities. While the exact amount of Commonwealth-funded assets held by these entities is difficult to determine, between FY05 and FY14 the Commonwealth's capital spending on Higher Education capital projects exceeded \$1.08 billion, capital spending for transportation-related financial assistance to local governments totaled more than \$2.1 billion and other grants and financial assistance for non-Commonwealth entities such as cities and towns and quasi-public authorities funded through the Commonwealth's capital budget exceeded \$3.9 billion, including \$1 billion to fund the Massachusetts School Building Authority in FY05 and FY06. As almost all of this capital spending was financed by Commonwealth debt, the liabilities are retained by the Commonwealth while the assets are held by the Institutions of Higher Education, Massachusetts cities and towns and entities such as local housing and other quasi-governmental authorities.

*Statement of Net Position  
Governmental Activity  
Including MassDOT  
(Amounts in thousands)*

Net Position as of June 30, 2014:

Commonwealth's Governmental Activity.....	\$ (28,959,690)
Massachusetts Department of Transportation (major assets include roads and bridges).....	<u>21,474,790</u>
Total Net Position of the Commonwealth, including MassDOT...	<u>\$ (7,484,900)</u>

Since MassDOT's governmental activity ended FY14 with a positive net position of \$21.475 billion, it is more informative to view the Commonwealth's financial statements in combination with MassDOT than to analyze the two separately, while also keeping in mind that significant assets owned by the Institutions of Higher Education and local governments and authorities were financed by liabilities still on the Commonwealth's books.

The deficit in the net position of governmental activities (which excludes "business-type activities" of Unemployment Insurance and Higher Education) grew by almost \$2.976 billion in FY14. While tax revenues experienced healthy growth on a statutory basis in FY14, much of this growth resulted from tax settlements, which reduced tax receivables and thus did not increase governmental net position on a GAAP basis. In addition, Medicaid expenditures grew more than 9% in FY14, mostly due to expanded Medicaid eligibility under the Affordable Care Act, federal reimbursements for which are 75% of expenditures and are expected to increase over the next several years, reducing the growth in net state cost. The other main factors underlying the change in the net deficit were as follows:

- The Commonwealth's pension funding schedule is updated every three years, while the Annual Required Contribution (ARC) is updated annually. Changes in the market value of assets are amortized over a five year period ("smoothed"). When pension fund asset values decline or increase, the Commonwealth's annual pension funding will lag the ARC.

The triennial updating of the pension fund schedule, combined with the dramatic stock market downturn in 2008-2009, has resulted in a cumulative underfunding of the Commonwealth's ARC to fund the pension liability of \$2.219 billion since 2009, with FY14 being underfunded by \$404 million.

- The Commonwealth had until recently funded its other post-employment benefits (OPEB) liability on a pay-as-you-go basis. GAAP requires the accrual of a liability for the difference between this amount and the actuarially required contribution. The change in the accrual was \$685 million in FY14, reducing net position; cumulative OPEB underfunding is \$4.832 billion. However, the Commonwealth has dedicated payments from the Master Settlement Agreement with tobacco companies to fund its OPEB liability. These payments are being phased in over ten years, and are projected to increase from \$56 million in FY14 to approximately \$250 million annually by FY23.
- As explained on page 4, the Commonwealth continues to fund, through its own debt, transportation-related assets that are owned by the Massachusetts Department of Transportation (MassDOT), Institutions of Higher Education, cities and towns and quasi-public authorities. In FY14, approximately \$2.0 billion of the more than \$2.5 billion in state-funded capital spending generated assets not owned by the Commonwealth, including \$1.36 billion in transportation spending (including more than \$246 million in grants and other financial assistance to cities and towns), \$206 million for Institutions of Higher Education (which are attributed to the Commonwealth's business-type activities) and approximately \$424 million in other capital grants and financial assistance to local governments and quasi-public entities.

The net deficit in government-wide activities, which includes the Commonwealth's business-type as well as governmental activities, increased by \$2.308 billion from FY13, with the deficit in governmental activities partially offset by surpluses in Unemployment Insurance and Higher Education.

## **REPORTING ENTITY**

The financial statements incorporate activity from over 150 departments. These departments include the various agencies, boards, and commissions, the 25 Institutions of Higher Education, the judicial and legislative branches of government, and constitutional offices. The departments record their daily financial operations in the state accounting system, MMARS, operated by the Office of the Comptroller.

In addition, the financial statements include 40 independent public authorities. These entities are defined as component units and meet the criteria for inclusion in the Commonwealth's reporting entity in accordance with GAAP. They are further described in Note 1 to the basic financial statements. The MSBA is blended into the Commonwealth's operations.

## **INDEPENDENT AUDIT**

The Commonwealth's independent auditors, KPMG LLP, have performed an independent audit of the Commonwealth for the fiscal year ended June 30, 2014. The independent auditors' report is presented in the Financial Section.

The Office of the Comptroller prepares these financial statements and is responsible for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Office of the Comptroller, working in conjunction with the State Auditor, has established a comprehensive internal control framework that is designed to protect the Commonwealth's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Commonwealth's financial statements in conformity with GAAP. Because of the cost, internal controls should not outweigh their benefits. The Commonwealth's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatement.

I would like to express my thanks to the many dedicated employees within the Office of the Comptroller. Continuing to carry out our mission and meet the goals that are set meant another successful year. I am proud to have them all on my team as another year of initiatives is now underway.

Respectfully submitted,

Martin J. Benison  
Comptroller of the Commonwealth



*French King Bridge Over Connecticut River - Erving*

## **CONSTITUTIONAL OFFICERS**

Deval L. Patrick  
*Governor*

William F. Galvin  
*Secretary of State*

Martha Coakley  
*Attorney General*

Steven Grossman  
*Treasurer and Receiver-General*

Suzanne Bump  
*Auditor*

## **LEGISLATIVE OFFICERS**

Therese Murray  
*President of the Senate*

Robert A. DeLeo  
*Speaker of the House*

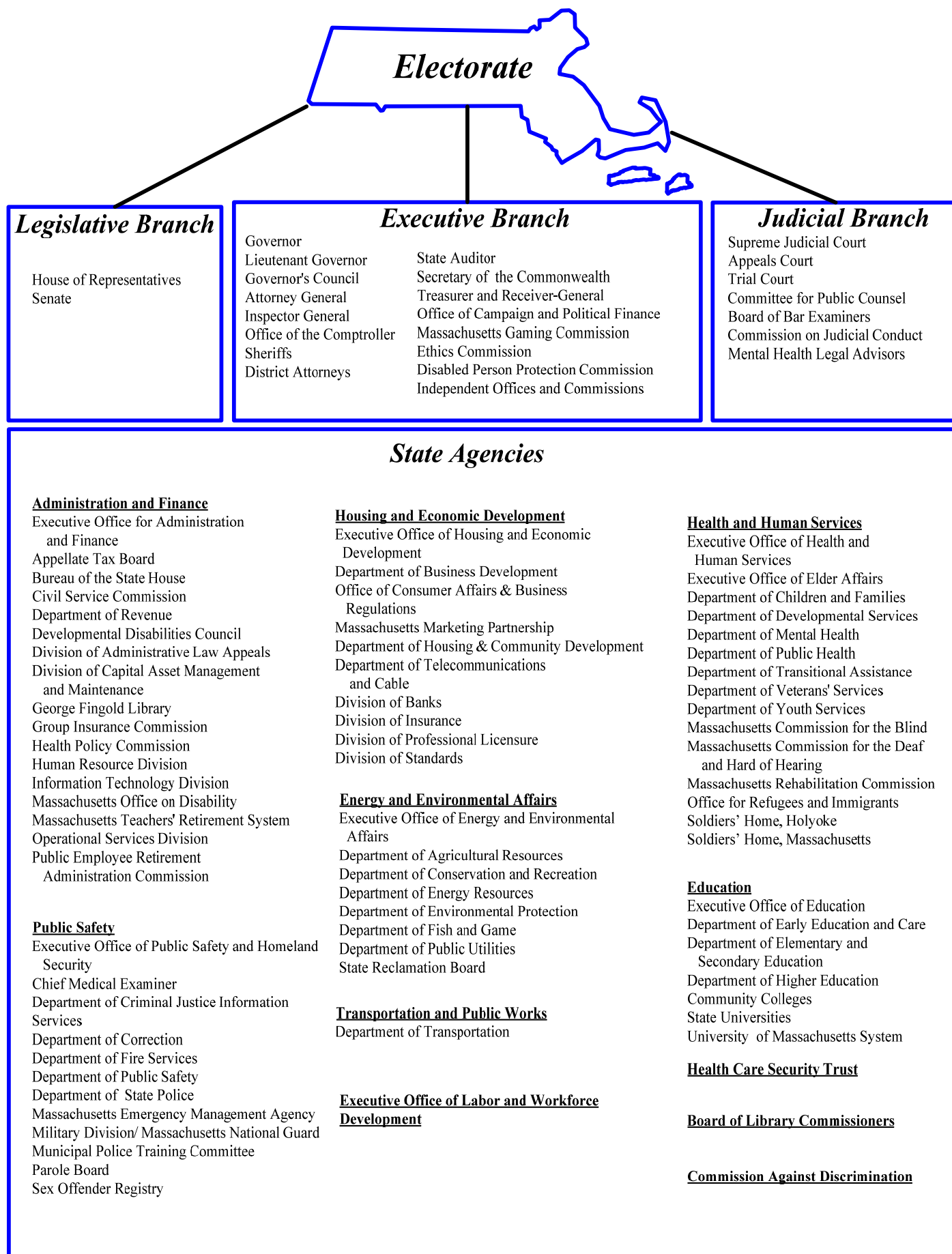
## **JUDICIAL OFFICERS**

Ralph D. Gants  
*Chief Justice, Supreme Judicial Court*

Phillip Rapoza  
*Chief Justice, Appeals Court*

Lewis H. Spence  
*Court Administrator, Trial Court*





**ADVISORY BOARD TO THE COMPTROLLER**

Glen Shor  
*Secretary of Administration and Finance*

Suzanne Bump  
*Auditor*

Steven Grossman  
*Treasurer and Receiver-General*

Lewis H. Spence  
*Chief Administrator, Trial Court*

Martha Coakley  
*Attorney General*

Michael Esmond  
*Gubernatorial Appointee*

Timothy C. Sullivan  
*Gubernatorial Appointee*

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*Program Coordinator*

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*Director*

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Government Finance Officers Association

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**Commonwealth of Massachusetts**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO



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# *Financial Section*



## *French King Bridge – Erving*

*Independent Auditors' Report*

*Management's Discussion and Analysis*

*Basic Financial Statements*

*Notes to the Basic Financial Statements*

*Required Supplementary Information Other Than Management's Discussion and Analysis*

*Other Supplementary Information*



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KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

## **Independent Auditors' Report**

Mr. Martin Benison, Comptroller  
The Commonwealth of Massachusetts  
Boston, Massachusetts

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts (the Commonwealth), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the accompanying table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Massachusetts, the State Universities and certain of the Community Colleges all of which are major enterprise funds and represent 85% of the total assets and deferred outflows of the business-type activities. We did not audit 74% of the total assets and deferred outflows of the Community Colleges major enterprise fund. Additionally, we did not audit the financial statements of the nonmajor component units, which represent 8% of the total assets and deferred outflows of the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards



require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of certain entities identified in Note 13 of the basic financial statements were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

### ***Emphasis of Matter***

As discussed in Note 1 to the basic financial statements, in fiscal year 2014, the Commonwealth adopted the provisions of Governmental Accounting Standards Board (GASB) Statements No. 65, *Items Previously Reported as Assets and Liabilities* and No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. Our opinions are not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis and required supplementary information, as listed in the accompanying table of contents (collectively referred to as RSI), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for



placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The introductory section, other supplementary information and statistical section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2014, on our consideration of the Commonwealth of Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commonwealth's internal control over financial reporting and compliance.

KPMG LLP

December 23, 2014



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## Management's Discussion and Analysis (Unaudited)

This analysis, prepared by the Office of the Comptroller, offers readers of the Commonwealth's financial statements a narrative overview of the activities of the Commonwealth for the fiscal year ended June 30, 2014 (FY14). We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal and with the Commonwealth's financial statements, which follow. This analysis is required by the Governmental Accounting Standards Board (GASB), which provides preparers with guidelines on what must be included in and excluded from this analysis.

### Financial Highlights – Primary Commonwealth Government

#### *Government–Wide Highlights*

**Net Position** – The liabilities of the primary government exceeded its assets at the end of FY14 by almost \$23.472 billion, an increase in the net deficit of \$2.308 billion from FY13.

Of the \$23.472 billion deficit, “unrestricted net position” has a deficit of \$28.811 billion and there is a \$2.292 billion positive balance attributable to the net investment in capital assets. There are five primary reasons for the negative unrestricted net position:

1. The Commonwealth has a net liability of \$6.174 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority (MSBA);
2. In FY10, the Commonwealth implemented transportation reform, which created the Massachusetts Department of Transportation (MassDOT) and transferred to that entity virtually all highway and bridge assets of the Commonwealth totaling approximately \$15.521 billion, as of the date of the transfer, net of depreciation. These assets were valued at \$22.798 billion as of June 30, 2014. However, the Commonwealth originally paid and continues to pay for the construction of these assets and retains a large amount of transportation-related debt, which is now unrelated to any capital asset owned by the Commonwealth.
3. The Commonwealth, through debt issuances, also pays for non-transportation capital assets not owned by the Commonwealth, particularly assets held by quasi-public entities and local governments and housing authorities.
4. The Commonwealth's pension funding schedule is updated every three years, while the Annual Required Contribution (ARC) is updated annually. Changes in the market value of assets are amortized over a five year period (“smoothed”).

When pension fund asset values decline or increase, the Commonwealth's annual pension funding will lag the ARC. The triennial updating of the pension funding schedule, combined with the dramatic stock market downturn in 2008-2009, has resulted in a cumulative underfunding of the

Commonwealth's ARC to fund the pension liability of \$2.219 billion. The Commonwealth's pension funding schedule was updated beginning in fiscal 2015.

5. The Commonwealth had, until recently, funded its retiree health insurance benefits (Other Post-Employment Benefits, or OPEB) on a pay-as-you-go basis. As a result, as of June 30, 2014, it had accumulated a \$4.832 billion liability for OPEB. However, the Commonwealth has dedicated payments from the Master Settlement Agreement with tobacco companies to fund its OPEB liability. These payments are being phased in over ten years, and are projected to increase from \$56 million in FY14 to approximately \$250 million annually by FY23.

At the end of FY14, the Commonwealth also held \$3.046 billion in "restricted net position", which are assets restricted primarily for payment of debt service, unemployment insurance benefits and the Institutions of Higher Education. Approximately \$1.366 billion in restricted net position balances were set aside for unemployment benefits, an additional \$1.138 billion was restricted for debt retirement (of which \$831 million was restricted for MSBA debt retirement), \$224 million was restricted for Higher Education and \$318 million was restricted for other governmental purposes.

The Commonwealth's governmental activities (which excludes the "business-type activities" of the Institutions of Higher Education and Unemployment Insurance) net deficit increased by \$2.976 billion, to \$28.960 billion, and its governmental activities unrestricted net deficit increased by approximately \$3.179 billion in FY14, to \$29.913 billion. Approximately \$1.089 billion of the increase in the net deficit was due to increases in the liabilities for state pension and post-employment health benefits.

Total revenues of the primary government increased by \$877 million, or 1.7% in FY14, to \$53.040 billion. Total expenses of the primary government increased by \$2.047 billion, or approximately 3.8%, to \$55.347 billion. Detail on revenue and expenses can be found on pages 28 to 30.

Net position of business-type activities increased by \$668 million, due to a surplus of \$363 million in the Unemployment Insurance Trust Fund and a surplus of \$305 million for Higher Education activity.

At June 30, 2014, the Commonwealth's governmental funds reported a combined ending fund balance of about \$4.619 billion, a decrease of \$251 million from June 30, 2013. Of the ending balances:

- \$1 million is nonspendable, \$1.518 billion is restricted, \$2.250 billion is committed, \$510 million is assigned and \$341 million is unassigned fund balance. (A full discussion of these classifications is included in Note 1 to the basic financial statements, on pages 69 - 71)
- The MSBA's fund balance of approximately \$1.173 billion is blended into the Commonwealth. Within this fund balance is

over \$1.058 billion in cash and restricted investments which were funded by bond proceeds in FY14 and previous fiscal years, and other assets, less approximately \$64 million in liabilities. In FY14, over \$731 million was apportioned to the MSBA from the Commonwealth from sales taxes, adjusted for accruals, and the MSBA issued \$549 million in long-term dedicated sales tax bonds.

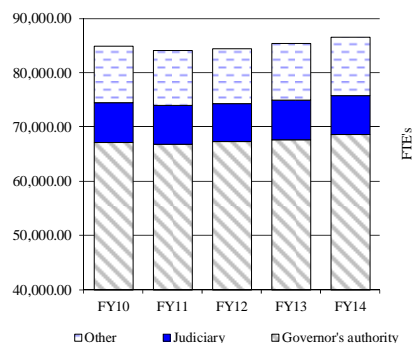
- Lottery revenues for FY14 were \$5.050 billion, an increase of approximately \$7 million, or 0.1%, from FY13. Prizes were approximately \$3.980 billion and operating expenses and mandated transfers to the governmental funds were \$1.070 billion.

Other highlights of FY14 financial operations include:

- Tobacco settlement proceeds for the year were approximately \$282 million on a GAAP basis, an increase of approximately \$29 million from FY13. Approximately \$127 million has been reported as a receivable in the governmental funds, equal to half of the anticipated tobacco settlement proceeds to be received in FY15. By statute, in FY14 approximately \$56 million, or the equivalent of 20% of tobacco settlement proceeds, was transferred to the State Retiree Benefits Trust Fund (SRBTF) to fund the Commonwealth's liability for retiree health care. The FY15 budget funds a transfer to the SRBTF equal to 30% of tobacco settlement proceeds. The transfers to the SRBTF will increase 10% per year until an amount equal to 100% of the tobacco settlement proceeds is transferred in FY23.
- During the fiscal year, the Commonwealth passed or agreed to terms of approximately \$14.817 billion in bond authorizations and approximately \$8 million in de-authorizations of previously issued capital appropriations. The Commonwealth determines the timing and extent of capital spending and bonding as part of its five-year capital plan.

***Full Time Equivalent Workforce  
Including Higher Education and the  
Massachusetts Department of  
Transportation***

***June 2010 – June 2014***



***Full-Time Equivalent Employment***

The chart to the left shows the Commonwealth's full-time equivalent employment including Massachusetts Department of Transportation (MassDOT) for all state funding sources (budgetary, non-budgetary, capital, federal and trust) over the past five fiscal years. In FY14, the number of Commonwealth FTEs increased by approximately 1,100, to a total of 86,490, with most of the increases in public safety (approximately 421 additional FTEs), health and human services (approximately 362 additional FTEs) and the courts (approximately 183 additional FTEs). Employment levels increased by a total of approximately 1,643 FTEs between June 30, 2010 and June 30, 2014 restoring some of the reductions that occurred in FY09 and FY10.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Commonwealth's basic financial statements. The Commonwealth's basic financial statements are made up of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the statutory basis of accounting, as well as pension and other post-employment benefits (OPEB) funding schedules. Other supplementary information is also provided to furnish additional detail to support the basic financial statements.

### Government–Wide Financial Statements

The government-wide financial statements present the reader with a broad overview of the Commonwealth's finances in a manner similar to a private sector business. The statements include the *Statement of Net Position*, which presents the assets, liabilities and net position for the government as a whole. Also presented is the *Statement of Activities*, which presents the functional expenses, offsetting revenues and changes in net position of the Commonwealth. The statements report the Commonwealth's net position and changes in net position. An increase or decrease in the Commonwealth's net position is one way to measure financial health as well as the trend of increases or decreases over time. Non-financial measures such as capital investments, changes in taxation, population, employment and economic conditions are also indicators of the overall health of any government.

Both the statement of net position and the statement of activities have separate sections for three different categories of the Commonwealth's operations. These activities are Governmental Activities, Business-type Activities and Discretely Presented Component Units. Governmental activities are where the Commonwealth's basic services are reported. Business-type activities are those for which fees are charged for a particular service. For the Commonwealth, business-type activities are comprised of the unemployment insurance compensation system and the Institutions of Higher Education. The component units are separate legal entities that are included in this report due to the nature of their governance and financial relationship with the Commonwealth.

The government–wide financial statements can be found on pages 40-43 of this report.

### Fund Financial Statements and Component Unit Financial Statements

*Funds* are groups of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Within the funds, budgetary compliance is demonstrated at the appropriation level for budgeted expenditures.



Only the major funds are shown separately in the fund financial statements, with the remaining funds included aggregated and reported as nonmajor funds.

Fund financial statements focus on individual parts of the Commonwealth, reporting its operations in more detail than the government-wide statements. The Commonwealth's funds can be divided into three categories: *Governmental Funds*, *Proprietary Funds* and *Fiduciary Funds*. It is important to realize that these fund categories use different bases of accounting and should be interpreted differently. Further discussion of the funds can be found in the section "Financial Analysis of the Commonwealth's Funds" and in Note 1 to the basic financial statements.

Component unit financial statements are presented for entities where the Commonwealth has financial accountability, but the entities are independent of the core Commonwealth operations. Most component units operate similar to private-sector businesses.

Although the Massachusetts School Building Authority (MSBA) is a component unit, the MSBA's operations have been determined by management to operate in a similar fashion to a Commonwealth department due to the MSBA's service to the Commonwealth and because it relies on a pledged portion of the Commonwealth's sales tax revenue to fund its debt service. In FY05, legislation changed the funding of school construction from a direct appropriation of the Commonwealth to a dedicated portion of the sales tax allocated to the MSBA. Because of the nature of transactions between the Commonwealth and this authority, per GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, the authority's operations are reported within a governmental fund as a "blended component unit" and on the government-wide financial statements.

#### **Notes to the Financial Statements, Required Supplementary Information and Other Supplementary Information**

The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements as of the date provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 63-123.

The required supplementary information section includes a budgetary comparison schedule for the General Fund, along with a reconciliation comparing the original General Appropriation Act and supplemental appropriations to actual budgetary spending. A variance column is also provided. A further reconciliation schedule of the budgeted revenues and expenses to governmental fund perspective revenues and expenditures for the General Fund is also provided. Required pension schedules under GASB Statement No. 67, *Financial Reporting for Pension Plans*, are also presented in this section.

Other supplementary information is not required, but is included to present combining schedules of various nonmajor funds and component units.

## GOVERNMENT-WIDE ANALYSIS

### *Major Long – Term Obligations for Assets of Political Subdivisions (amounts in thousands)*

Massachusetts School Building Authority net deficit.....	\$ 6,174,141
Outstanding bonds issued to fund the MBTA.....	207
Debt related to MassDOT assets.....	<u>10,972,954</u>
Effect on unrestricted net position of items unique to the Commonwealth....	<u>\$ 17,147,302</u>

The primary government's combined net position (governmental and business-type activities) showed a net deficit of \$23.472 billion at the end of FY14, an increase in the net deficit of \$2.308 billion. Governmental activities unrestricted net position is negative by \$29.913 billion. As explained previously, a substantial portion of this deficit is a result of programs where the Commonwealth decided to fund assets that are owned by political subdivisions of the Commonwealth, and in particular the result of the transfer of assets to MassDOT during FY10, as well as continued borrowing by the Commonwealth that funds, through its capital budget and debt issuance, construction of new assets owned by MassDOT, local governments and local authorities. In FY14, MassDOT reports its capital assets on its financial statements, which are incorporated into the Commonwealth's financial statements similarly to other component units.

Of the Commonwealth's more than \$2.5 billion in FY14 capital spending, approximately \$2.0 billion in state-funded capital spending did not result in capital assets attributed to governmental activities of the Commonwealth, including approximately \$1.36 billion in transportation spending (including more than \$246 million in grants and other financial assistance to cities and towns), \$206 million for Institutions of Higher Education (which are included in the Commonwealth's business-type activities) and approximately \$424 million in other capital grants and financial assistance to local governments and quasi-public entities. Between FY05 and FY14 the Commonwealth's capital spending on projects owned by non-Commonwealth entities or by the Institutions of Higher Education totaled \$14.5 billion. These include Higher Education capital projects totaling approximately \$1.08 billion, capital spending for transportation projects now owned by the Massachusetts Department of Transportation totaling approximately \$7.5 billion, transportation-related financial assistance to local governments totaling more than \$2.1 billion and other grants and financial assistance for non-Commonwealth entities such as cities and towns and quasi-public authorities funded through the Commonwealth's capital budget of almost \$3.9 billion, including \$1 billion in FY05 and FY06 to capitalize the Massachusetts School Building Authority.

The Commonwealth also funds school construction through debt issued by the MSBA (beyond its initial \$1 billion capitalization), and includes the MSBA's debt on its balance sheet, but the assets paid for with that debt are owned by Massachusetts cities, towns and school districts.

Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year of the financial statement date, respectively. As of June 30, 2014, the Commonwealth's government-wide current cash and short-term investments totaled \$3.750 billion, a decrease of \$541 million from June 30, 2013. Total current assets were \$9.996 billion, an increase of \$53 million from June 30, 2014. During the year, the Commonwealth issued \$800 million in Revenue Anticipation Notes (RANs). The RANS were retired in April, May and June 2014. As of June 30, 2014, the Commonwealth's current liabilities were \$8.882 billion, an increase of \$518 million from June 30, 2013.

The primary government's non-current assets totaled \$16.885 billion, an increase of \$660 million from June 30, 2013. This increase was due mainly to a \$744 million increase in capital assets, most of which occurred in business-type of activities, as the result of increases in assets recorded by the Institutions of Higher Education.

The Commonwealth holds \$10.769 billion in traditional capital assets such as land, construction in process, buildings, infrastructure and equipment, net of accumulated depreciation. GASB requires the reporting of the value of investments in the Commonwealth's infrastructure, including roads, bridges, beaches, dams and other immovable assets on the face of the Commonwealth's financial statements. As these assets provide services to citizens, they are not available to finance future spending unless they are sold. Although the Commonwealth's investment in its capital assets is also reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The table on page 28 shows the Commonwealth's net position. Restricted net position represents resources that are subject to external constraints.

In addition to the Commonwealth funding assets owned by other entities, the primary reasons for the increase in net deficit were:

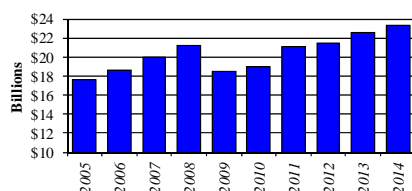
- As described in more detail on page 21, the combination of the stock market decline and the fact that the pension funding schedule is updated only triennially but the pension Annual Required Contribution (ARC) is updated annually has resulted in the Commonwealth underfunding its pension obligation by a cumulative \$2.219 billion, including underfunding of the obligation by \$404 million in FY14;
- The Commonwealth funds its other post-employment benefits (OPEB) liability on a pay-as-you-go basis. GAAP requires the accrual of a liability for the difference between this amount and the actuarially required contribution. The change in the accrual was \$685 million in FY14, reducing net position; cumulative underfunding of the Commonwealth's OPEB obligation was \$4.832 billion as of June 30, 2014.

**Net Position as of June 30, 2014 and 2013**  
(in thousands of dollars)

	Governmental Activities		Business - Type Activities		Total Primary Government	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Current assets.....	\$ 8,292,538	\$ 8,315,303	\$ 1,691,508	\$ 1,627,511	\$ 9,984,046	\$ 9,942,814
Non-capital non-current assets.....	3,274,393	3,782,145	2,842,280	2,418,725	6,116,673	6,200,870
Capital assets.....	4,572,621	4,366,071	6,196,149	5,658,798	10,768,770	10,024,869
Deferred outflows of resources.....	505,587	566,095	143,319	72,304	648,906	638,399
<b>Total assets and deferred outflows.....</b>	<b>16,645,139</b>	<b>17,029,614</b>	<b>10,873,256</b>	<b>9,777,338</b>	<b>27,518,395</b>	<b>26,806,952</b>
Current liabilities.....	7,852,089	7,337,053	1,029,600	1,026,890	8,881,689	8,363,943
Long term liabilities.....	37,733,551	35,632,437	4,337,997	3,895,042	42,071,548	39,527,479
Deferred inflows of resources.....	19,189	-	18,018	14,283	37,207	14,283
<b>Total liabilities and deferred outflows.....</b>	<b>45,604,829</b>	<b>42,969,490</b>	<b>5,385,615</b>	<b>4,936,215</b>	<b>50,990,444</b>	<b>47,905,705</b>
Net position:						
Net investment in capital assets.....	(502,370)	(592,483)	2,794,845	2,605,263	2,292,475	2,012,780
Restricted.....	1,455,704	1,386,416	1,590,545	1,209,630	3,046,249	2,596,046
Unrestricted.....	(29,913,024)	(26,733,809)	1,102,251	1,026,230	(28,810,773)	(25,707,579)
<b>Total net position.....</b>	<b>\$ (28,959,690)</b>	<b>\$ (25,939,876)</b>	<b>\$ 5,487,641</b>	<b>\$ 4,841,123</b>	<b>(23,472,049)</b>	<b>\$ (21,098,753)</b>

## Changes in Net Position

### Revenue from Taxation FY05-FY14



As noted earlier, the Commonwealth's total primary government net deficit increased by approximately \$2.308 billion between FY13 and FY14. The table on page 29 shows the major categories of government-wide revenues and expenses for FY13 and FY14, as well as net position for the two fiscal years. In FY14, approximately 44.0% of the Commonwealth's total revenue came from taxes, while the remainder resulted from programmatic revenues, including charges for services and grants and contributions, the bulk of which was federal aid. Total revenues increased by \$877 million, or 1.7%, with tax revenue increasing by \$720 million, or 3.2%, from FY13. The increase in tax revenue was attributable primarily to sales tax revenue growth of \$291 million, or 5.5%, corporate excise tax growth of \$229 million, or 11.8% (due primarily to an increase in tax settlements), and motor fuels tax revenue growth of \$90 million, or 13.8%, due to an increase in gasoline tax rates.

Operating grants and contributions (including federal revenue for Medicaid and Unemployment Insurance) decreased by \$158 million, or 1.1%, in FY14, with unemployment insurance benefit reimbursements from the federal government declining by \$466 million, or 48.2%, as the extended unemployment benefits program expired. These declines in federal funding were partially offset by an increase in federal Medicaid reimbursements due to growth in state Medicaid spending and an increased reimbursement rate under the Affordable Care Act.

Total charges for services increased by approximately \$124 million, or 0.9%, with charges increasing by a net of \$79 million across various governmental activities programs. In business-type activities, charges for Higher Education services increased by \$71 million, offset by a decline in charges for Unemployment Compensation of \$26 million.

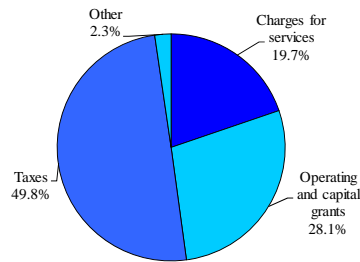
Government-wide restricted net position increased by \$450 million due primarily to a \$363 million increase in assets restricted for unemployment benefits, a \$105 million increase in assets restricted for indebtedness, offset by a \$18 million decrease in assets restricted for other purposes.

Total primary government spending increased by \$2.047 billion, or 3.8%, from FY13, with governmental activities spending growing by \$2.467 billion, or 5.3%, to \$48.611 billion, and business-type activities spending declining by \$420 million, or 5.9%, to \$6.737 billion. Medicaid expenses increased by \$1.749 billion, or 14.2%, although \$564 million of this increase was due to reclassification of certain health care spending formerly included in the health and human services category. Medicaid spending increased by \$1.185 billion, or 9.6%, adjusting for this reclassification, with growth primarily due to expanded Medicaid eligibility under the Affordable Care Act. The reimbursement rate for this expanded coverage is 75% of expenditures and is expected to increase over the next several years, limiting the growth in net state cost. Unemployment insurance compensation declined by \$682 million, or 25.1%, as unemployment declined in the Commonwealth and the extended benefit program expired. Other significant spending changes occurred in health and human services, where spending declined by \$427 million, or 5.5%, after adjusting for the Medicaid reclassification noted above, in transportation and public works, where spending grew by \$512 million, or 27.2%, in direct local aid, where spending increased by \$174 million, or 3.4%, and in general government expenses, where spending declined by \$49 million, or 1.9%.

**Changes in Net Position during the Fiscal Years Ended June 30, 2014 and 2013**  
(in thousands of dollars except percentages)

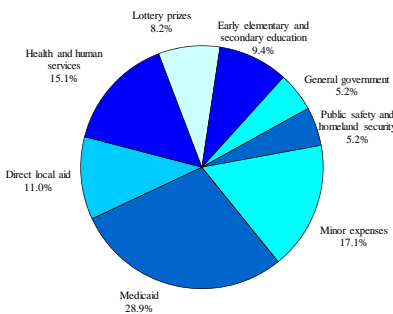
	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total Primary Government</u>		<u>Total Primary Government</u>		
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	'14 to '13
							Distribution	Distribution	% Change
<b>Revenues</b>									
Program Revenues:									
Charges for services.....	\$ 9,236,702	\$ 9,158,100	\$ 4,423,762	\$ 4,378,547	\$ 13,660,464	\$ 13,536,647	25.8%	26.0%	0.9%
Operating grants and contributions.....	13,121,648	12,836,122	1,347,423	1,791,196	14,469,071	14,627,318	27.3%	28.0%	-1.1%
Capital grants and contributions.....	30,699	18,726	-	-	30,699	18,726	0.1%	0.0%	63.9%
General Revenues:									
Taxes.....	23,319,168	22,599,332	-	-	23,319,168	22,599,332	44.0%	43.3%	3.2%
Other.....	1,131,754	985,713	428,771	395,228	1,560,525	1,380,941	3.0%	2.5%	13.0%
<b>Total Revenues.....</b>	<b>46,839,971</b>	<b>45,597,993</b>	<b>6,199,956</b>	<b>6,564,971</b>	<b>53,039,927</b>	<b>52,162,964</b>	<b>100.0%</b>	<b>100.0%</b>	<b>1.7%</b>
<b>Expenses</b>									
Medicaid.....	14,034,862	12,286,342	-	-	14,034,862	12,286,342	25.4%	23.1%	14.2%
Direct local aid.....	5,353,521	5,179,104	-	-	5,353,521	5,179,104	9.7%	9.7%	3.4%
Health and human services.....	7,360,519	7,787,051	-	-	7,360,519	7,787,051	13.3%	14.6%	-5.5%
Lottery.....	3,980,980	3,982,700	-	-	3,980,980	3,982,700	7.2%	7.5%	0.0%
Higher education.....	-	-	4,700,342	4,437,894	4,700,342	4,437,894	8.5%	8.3%	5.9%
Early elementary and secondary education.....	4,545,848	4,335,639	-	-	4,545,848	4,335,639	8.2%	8.1%	4.8%
Unemployment compensation.....	-	-	2,036,431	2,718,447	2,036,431	2,718,447	3.7%	5.1%	-25.1%
Other.....	13,334,933	12,573,184	-	-	13,334,933	12,573,184	24.1%	23.6%	6.1%
<b>Total Expenses.....</b>	<b>48,610,664</b>	<b>46,144,020</b>	<b>6,736,773</b>	<b>7,156,341</b>	<b>55,347,437</b>	<b>53,300,361</b>	<b>100.0%</b>	<b>100.0%</b>	<b>3.8%</b>
<b>Excess/(Deficiency)</b>									
<b>before transfers.....</b>	<b>(1,770,693)</b>	<b>(546,027)</b>	<b>(536,817)</b>	<b>(591,370)</b>	<b>(2,307,510)</b>	<b>(1,137,397)</b>			
Transfers.....	(1,205,141)	(1,096,061)	1,205,141	1,096,061	-	-			
Change in net position (deficits).....	(2,975,834)	(1,642,088)	668,324	504,691	(2,307,510)	(1,137,397)			
Net position/(deficit) - beginning, as restated....	(25,983,856)	(24,297,788)	4,819,317	4,336,432	(21,164,539)	(19,961,356)			
Net position/(deficit) - ending.....	<b>\$ (28,959,690)</b>	<b>\$ (25,939,876)</b>	<b>\$ 5,487,641</b>	<b>\$ 4,841,123</b>	<b>\$ (23,472,049)</b>	<b>\$ (21,098,753)</b>			

**Revenue–Governmental Activities**  
Fiscal Year Ending June 30, 2014



The largest category of tax revenue is income taxes. Of the \$23.319 billion in tax revenue within governmental activities, \$12.866 billion, or 55.2% of total taxes, was from income taxes, \$5.543 billion, or 23.8%, was from sales taxes, \$2.173 billion, or 9.3%, was from corporate taxes, \$740 million, or 3.2%, was from motor fuels taxes and \$1.998 billion, or 8.6%, was from other forms of taxation. Lottery revenues of \$5.050 billion made up 54.7% of the Commonwealth’s governmental charges for services. The largest operating grants were federal Medicaid subsidies, which totaled \$7.618 billion, other health and human services grants of \$2.632 billion and education grants of \$1.230 billion. Most of the state’s capital grants are for highway construction, and those federal grants are recorded not in the Commonwealth’s financial statements but in the financial statements of the Massachusetts Department of Transportation.

**Major Expenses–Governmental Activities**  
Fiscal Year Ending June 30, 2014



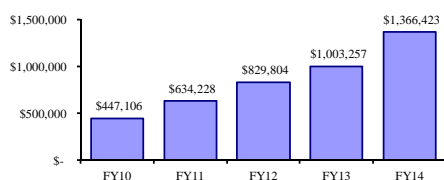
Medicaid expenses of \$14.035 billion accounted for 28.9% of the Commonwealth’s governmental activities expenses. Historically, approximately half of Medicaid expenses have been reimbursed by the federal government, although under the Affordable Care Act some Medicaid expenditures are reimbursed at higher rates. These subsidies are noted herein in the “operating grants and contributions” segment. The largest expense that is not subsidized by program revenues is direct local aid to the municipalities of the Commonwealth.

Other large expenditures for governmental activities included non-Medicaid health and human services costs of approximately \$7.361 billion, accounting for 15.1% of governmental expenses, pre-kindergarten through secondary education costs of approximately \$4.546 billion, accounting for 9.4% of governmental expenses and public safety and homeland security costs of approximately \$2.504 billion, accounting for 5.2% of governmental expenses. State employees’ pensions and other post-employment benefits, which are included in the department spending amounts above, were \$1.954 billion.

**Business–Type Activities**

Business–type activities are functions that equate to activities of a private enterprise. In the Commonwealth, the Institutions of Higher Education are deemed to be business-type activities because of their lack of separate taxation. Also, Unemployment Compensation is considered to be a business–type activity.

**Unemployment Compensation Fund**  
**Net Position**  
Fiscal Years 2010 - 2014  
(Amounts in Thousands)

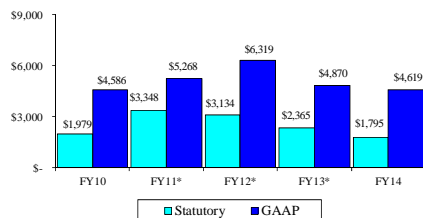


Business-type activities increased the Commonwealth’s net position by approximately \$668 million in FY14. Operating grants and contributions dropped by \$466 million, due almost entirely to reduced unemployment insurance reimbursements from the federal government as unemployment fell in the Commonwealth and the extended benefits program expired. Charges for services increased by \$45 million due largely to a \$71 million increase in sales and service revenue from the Institutions of Higher Education, offset by a decline of \$26 million in Unemployment Insurance charges. Total revenues of business-type activities dropped by \$365 million, but unemployment insurance benefit spending declined by \$682 million as the economy recovered. The net position of the Unemployment Compensation Trust Fund increased by \$363 million. The net position of the Institutions of Higher Education increased by \$305 million, not including a restatement of beginning

## FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS

### Governmental Funds

**Governmental Fund Balance  
Statutory vs. GAAP**  
(Amounts in Millions)



\*Statutory basis excludes MassDOT

balance by \$309 million, as expenses increased by \$262 million and revenues increased by \$236 million.

The Commonwealth uses fund accounting to demonstrate inter-period equity and the extent to which current resources are financing the full cost of services that citizens are receiving. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

Governmental funds account for the near term inflows, outflows and balances of expendable resources of the Commonwealth's core functions and services. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances.

The General Fund is the primary operating fund of the Commonwealth. At the end of FY14, the fund balance of the General Fund was \$2.835 billion. Of this amount, \$1.248 billion represents the balance in the Commonwealth's Stabilization Fund. \$154 million was also assigned for continuing appropriations from FY14 into FY15.

The Federal Grants Fund is used to manage categorical grants funded in their entirety by the federal government. Between FY09 and FY11, this fund saw a significant increase in activity as a result of ARRA, with annual ARRA revenues in excess of \$2 billion, but by FY14 ARRA revenues had declined to approximately \$155 million, almost entirely for education and transportation projects. Also reported in this fund is almost \$1.316 billion in food stamp benefit payments, \$61 million of childhood immunization grant and \$23 million from the USDA's food program, which do not flow through the Commonwealth but are included in this report under governmental accounting rules.

**Governmental Fund Operations - GAAP Basis - Fund Perspective**  
(Amounts in thousands)

	FY14	FY13	FY12	FY11	FY10
Beginning fund balances.....	\$ 4,869,951	\$ 6,318,958	\$ 5,267,628	\$ 4,585,715	\$ 5,061,342
Revenues and other financing sources.....	57,209,970	55,289,871	54,370,101	53,898,404	49,853,115
Expenditures and other financing uses.....	57,460,487	56,738,878	53,318,771	53,216,491	50,328,742
Excess/(deficiency).....	(250,517)	(1,449,007)	1,051,330	681,913	(475,627)
Ending fund balances.....	\$ 4,619,434	\$ 4,869,951	\$ 6,318,958	\$ 5,267,628	\$ 4,585,715

Governmental fund tax revenues increased by \$1.396 billion, or 6.2%, primarily due to growth in income, sales and corporate taxes as the Massachusetts economy continued to recover from recession. Federal grants and reimbursements increased by \$280 million, or 2.2%, due to growth in reimbursable Medicaid spending, but would have grown by \$377 million, or 3.0%, had certain pharmacy rebate revenues not been reclassified from federal reimbursements to departmental revenue in FY14. Assessments, fees and investment earnings combined increased by \$403 million, or 3.9%, but would have grown by \$306 million or 2.9%, if not for the pharmacy rebate revenue classification. Revenues from other financing sources decreased by \$159 million, or 1.6%. Overall revenues increased by \$1.920 billion, or approximately 3.5%.

During FY14, governmental fund expenditures and other financing uses increased by \$722 million, or 1.3%. Medicaid expenditures increased by \$1.749 billion, or 14.2%, but would have increased by \$1.185 billion, or 9.2%, if not for a reclassification of \$564 million in health care expenditures as Medicaid spending in FY14. Debt service expenditures grew by \$15.8 million, or 0.6%, post-employment benefits decreased by \$13 million, or 1.5% and direct local aid grew by \$175 million or 3.4%. Other financing uses declined by \$1.549 billion, or 17.2%, due primarily to a decline in payments to refunding escrows.

As of the end of FY14, the Commonwealth's governmental funds reported combined ending fund balances of \$4.619 billion, a decrease of \$251 million from the previous year. The decline in fund balance was due primarily to expenditures that exceeded revenues for the Commonwealth's general operations paid from the state's General Fund.

### Governmental Funds - Fund Balance Classification

(Amounts in thousands)

	2014	2013	Change	Percentage Change
<b><u>Nonspendable/Restricted:</u></b>				
Nonspendable.....	\$ 1,116	\$ 914	\$ 202.0	22.1%
Restricted.....	1,517,555	1,557,928	(40,374)	-2.6%
<b>Total Nonspendable/Restricted.....</b>	<b>1,518,671</b>	<b>1,558,842</b>	<b>(40,172)</b>	<b>-2.6%</b>
<b><u>Unrestricted</u></b>				
Committed.....	2,249,906	2,324,228	(74,323)	-3.2%
Assigned.....	510,353	595,085	(84,732)	-14.2%
Unassigned.....	340,505	391,795	(51,290)	-13.1%
<b>Total Unrestricted.....</b>	<b>3,100,763</b>	<b>3,311,108</b>	<b>(210,345)</b>	<b>-6.4%</b>
<b>Total fund balances.....</b>	<b>\$ 4,619,434</b>	<b>\$ 4,869,951</b>	<b>\$ (250,517)</b>	<b>-5.1%</b>

Nonspendable amounts represent loans receivable. Restricted fund balances represent amounts restricted for Commonwealth and MSBA debt service or restricted by bond covenants, funds that are restricted in capital projects and special revenue funds, balances in the federal grants funds and most of the balances held in expendable trusts. Unrestricted amounts include fund balances classified as committed, including those generated by revenue sources directed to specific purposes but with a lower level of constraints on their use than restricted balances, as well the fund balance of the Stabilization Fund. Unrestricted amounts also included prior appropriations continued, which are classified as assigned, and residual balances in the General Fund, which are classified as unassigned. A full discussion of the Commonwealth's fund balance classification policy under GASB 54 can be found in Note 1 to the basic financial statements, on pages 69-71.

### Proprietary Funds

Proprietary Funds report activities of the Commonwealth that are structured similar to for-profit businesses. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in greater detail.

As discussed above, the business-type activities increased the Commonwealth's net position by approximately \$669 million.



## BUDGETARY HIGHLIGHTS

The FY14 General Appropriation Act (GAA) authorized approximately \$33.527 billion in spending, exclusive of approximately \$1.630 billion in required pension contributions and \$283 million in FY13 spending authorized to be continued into FY14 as part of FY13 end-of-year supplemental budgets.

The FY14 budget as enacted by the Legislature was based on a FY14 consensus tax revenue estimate of \$22.334 billion, of which approximately \$19.179 billion represented taxes available for budget after adjusting for \$3.155 billion in tax revenue allocated to state pension contributions (\$1.630 billion), sales tax revenue dedicated to the Massachusetts Bay Transportation Authority (\$799 million) and the Massachusetts School Building Authority (\$704 million) and revenue deposited in the non-budgeted Workforce Training Fund (\$22 million).

The FY14 tax revenue estimate was further adjusted to \$22.797 billion (of which \$19.642 billion was available for budget) as a result of several tax law changes included in the FY14 budget or enacted separately. On October 15, 2013 the Executive Office for Administration and Finance reaffirmed the FY14 tax revenue estimate of \$22.797 billion and taxes available for budget of \$19.642 billion.

The estimate was revised upward by \$403 million to \$23.200 billion on January 14, 2014. Tax revenues ended the year at \$23.369 billion, \$169 million above the final FY14 tax estimate and \$572 million above the original FY14 tax estimate.

Approximately \$582 million in supplemental appropriations were authorized during FY14 prior to June 30, 2014. Subsequent to year end, an additional supplemental budget was enacted totaling approximately \$89 million in new and continued appropriations, \$38 million of which was for FY14 expenditures and \$51 million of which was continued to FY15 and reappropriated. The year's significant supplemental appropriation activity included:

- \$226 million transfer for payments to hospitals that provide care for low-income Massachusetts residents; the majority of the increase aligned federal fiscal year 2013 payments with federal approval timelines;
- \$66 million for the Group Insurance Commission to pay health care benefits for Commonwealth employees;
- \$62 million for emergency homeless assistance for family shelters and services;
- \$34 million to compensate private counsel who defend indigent defendants;
- \$62 million for snow and ice removal costs;
- \$28 million to reimburse cities and towns for lost revenue from charter school funding;
- \$24 million to pay Sheriffs' Departments costs;
- \$15 million to fund the costs of collective bargaining agreements;

- \$15 million to seed a brownfields redevelopment fund;
- \$11 million for a purchase of service rate increase;
- \$11 million for a facility services program;
- \$11 million for the operations of the House of Representatives;
- \$7 million for a reserve for Sheriffs' facilities operations;
- \$6 million for delivery of group care services;
- \$5 million for a Community College critical investment reserve.

FY14 budgeted revenues and other financing sources (before transfers between the budgeted funds, which are included in both spending and revenue and thus have no effect on fund balances) totaled \$35.473 billion, an increase of \$1.694 billion, or 5.0%, from FY13. Tax revenue grew by \$1.190 billion, or 5.8%, as a result of continuing growth in the economy and increased tax settlements, and despite a \$399 million decrease in capital gains tax revenues that resulted from a one-time acceleration of capital gains realizations by investors in FY13 in anticipation of tax increases effective January 1, 2014, much of which was "borrowed" from FY14. Federal reimbursements increased by \$144 million, or 1.7%, primarily due to growth in reimbursable Medicaid spending, but would have grown by \$241 million, or 3.0%, had certain pharmacy rebate revenues not been reclassified from federal to departmental. Departmental revenue totaled \$3.712 billion, an increase of \$342 million, or 10.1%, but would have grown by 7.1% if not for the pharmacy rebate reclassification, with the remaining growth primarily due to a \$52 million increase in the employer portion of health insurance reimbursements from non-state entities and cities and towns. Interfund transfers from non-budgeted funds totaled \$1.567 billion, an increase of \$18 million, or 1.2%.

FY14 budgeted expenditures and other financing uses, including transfers to non-budgeted funds (but before transfers between the budgeted funds) totaled \$35.897 billion, an increase of \$2.003 billion, or 5.9%, from FY13, primarily due to increases in health care spending, including Medicaid and local aid.

Spending on programs and services totaled \$30.211 billion, an increase of \$2.117 billion, or 7.5% from FY13. Medicaid expenditures totaled \$11.901 billion, an increase of \$1.101 billion, or 10.2%, from FY13, due to provisions of the federal Affordable Care Act (ACA), which expanded eligibility for Medicaid as of January 1, 2014, as well as to base enrollment growth.

Debt service totaled \$2.133 billion, up \$16 million, or 0.8% from FY13. Interfund transfers to non-budgeted funds (primarily the Universal Health Care funds) totaled \$1.502 billion, a decrease of \$214 million, or 12.5%, primarily due to decreases in health care transfers of \$116 million to the Delivery System Transformation Initiatives Trust Fund and \$117 million to the Commonwealth Care Trust Fund. Post-employment benefits (for pension contributions and retiree health insurance) grew by \$83 million, or 4.2%. Spending for direct local aid (both education aid and unrestricted aid), at \$5.293 billion, was up \$174 million, or 3.5%, from FY13.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Capital assets of the Commonwealth include land, buildings, improvements, equipment, vehicles and infrastructure. The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2014 amounts to approximately \$18.578 billion, with accumulated depreciation of approximately \$7.809 billion, leaving a net book value of \$10.769 billion. Infrastructure includes assets that are normally immovable and of value only to the Commonwealth, such as roads, bridges, piers and dams. (The investments in capital assets noted above do not include capital assets owned by MassDOT.) The total increase in the Commonwealth's investment in capital assets from 2013 to 2014 was approximately \$740 million, with \$207 million in governmental activities and \$533 million in business-type activities. The major increases in the net value of capital assets was in construction in process for governmental activities and construction in process, buildings and machinery and equipment for the business-type activities.

The table below details the capital asset activity for the Commonwealth.

<b>Capital Assets at Year - End</b> (net of depreciation) (amounts in thousands)						
	Governmental Activities		Business - Type Activities		Total	
	2014	2013	2014	2013*	2014	2013*
Land.....	\$ 842,713	\$ 822,076	\$ 114,530	\$ 107,847	\$ 957,243	\$ 929,923
Historical treasures.....	-	-	1,162	1,101	1,162	1,101
Construction in process.....	866,236	649,712	1,139,836	1,317,594	2,006,072	1,967,306
Buildings.....	2,483,617	2,546,882	4,125,043	3,398,886	6,608,660	5,945,768
Machinery and equipment.....	245,966	241,082	728,235	740,675	974,201	981,757
Infrastructure, excluding central artery.....	134,089	106,319	-	-	134,089	106,319
Library collections.....	-	-	87,343	96,584	87,343	96,584
<b>Total .....</b>	<b>\$ 4,572,621</b>	<b>\$ 4,366,071</b>	<b>\$ 6,196,149</b>	<b>\$ 5,662,687</b>	<b>\$ 10,768,770</b>	<b>\$ 10,028,758</b>

\*Re-stated

Additional detail on the Commonwealth's FY14 capital asset activity can be found in Note 5 to the basic financial statements ("Capital Assets") on pages 86 – 87.

### Debt Administration

The Commonwealth issues short-term and long-term debt. Debt that is general obligation in nature is backed by the full faith and credit of the Commonwealth and paid from governmental funds. Additionally, short-term notes are issued and redeemed annually.

To fund the FY14 capital budget, the Commonwealth borrowed by issuing \$2.160 billion in long-term bonds, \$1.492 billion of which was general obligation debt and \$668 million of which was special obligation debt secured by motor fuels taxes, motor vehicle license and registration fees and future federal reimbursements for transportation spending. All new bond sales were either for general government purposes, for road and bridge repair, or unallocated as of year-end and assumed to be for general purposes, including for construction and equipment purchases. In addition, the Commonwealth issued \$637 million in debt to refund already existing debt, taking advantage of continued low interest rates in FY14.

Approximately 18.3% percent of the Commonwealth's \$19.597 billion in general obligation debt outstanding as of June 30, 2014 was issued as variable rate bonds. Included in this variable rate debt was approximately \$402 million in auction rate securities (about 2.0% of all general obligation debt).

The table below details the Commonwealth's debt by type for the fiscal year compared to the prior fiscal year, excluding premiums and discounts.

Additional detail on the Commonwealth's short-term debt can be found in Note 6 ("Short-Term Financing and Credit Arrangements") on pages 87-88 and Note 7 ("Long-Term Obligations") on pages 88 – 103.

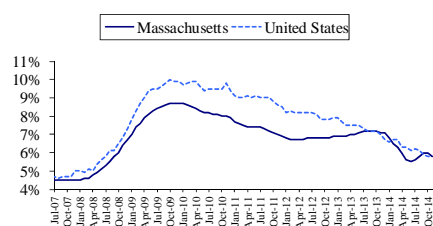
#### Outstanding Long - Term Debt Obligations

(Amounts in thousands)

	Governmental Activities		Business - Type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds.....	\$ 19,596,662	\$ 19,140,239	\$ -	\$ -	\$ 19,596,662	\$ 19,140,239
Special obligation bonds (excluding GANs).....	2,292,255	1,923,700	-	-	2,292,255	1,923,700
Revenue obligation bonds.....	-	-	4,243,731	3,736,432	4,243,731	3,736,432
Grant anticipation notes.....	530,935	449,100	-	-	530,935	449,100
<b>Subtotal.....</b>	<b>22,419,852</b>	<b>21,513,039</b>	<b>4,243,731</b>	<b>3,736,432</b>	<b>26,663,583</b>	<b>25,249,471</b>
Massachusetts School Building Authority.....	5,632,470	5,195,160	-	-	5,632,470	5,195,160
<b>Total.....</b>	<b>\$ 28,052,322</b>	<b>\$ 26,708,199</b>	<b>\$ 4,243,731</b>	<b>\$ 3,736,432</b>	<b>\$ 32,296,053</b>	<b>\$ 30,444,631</b>

#### ECONOMIC FACTORS AFFECTING NEXT YEAR'S BUDGET

##### Unemployment Rate July 2007 – November 2014



The Commonwealth, with an international reputation for medical, cultural, historical and educational institutions remains the economic and educational hub of New England. The Commonwealth's economy remains diversified, but its strongest component is its knowledge-based technology and service industries and consequently the state relies heavily on a highly educated workforce. The Commonwealth is home to sixteen S&P 500 companies, among them eight Fortune 500 headquarters.

In December 2007, the nation entered into a recession caused by the downturn in the housing markets that worsened due to the global capital markets crisis that occurred starting in September 2008. Rates of economic decline were sharp during the recession as the nation's gross domestic product fell and unemployment hit the highest levels in decades. While the national recession ended in June 2009, recovery has been slow compared to previous recessions.

The Massachusetts economy outperformed the nation's economy as a whole during and immediately following the most recent recession. Home prices fell in Massachusetts by approximately 18% at their lowest point during the recession, compared to a decline of 34% nationally. The unemployment rate for the Commonwealth rose from 5.2% in July of 2008 to a high of 9.5% in February 2011, declined to a low of 5.6% in June 2014, and stood at 5.8% as of November 2014. Nationally, the unemployment rose from 5.8% in July 2008 to a high of 10.0 % in

October 2009 (a rate that had not been seen since 1983), and had declined to 5.8% as of November 2014. Based on the “establishment survey” of employment, which is considered by most economists to be more accurate than the “household survey” upon which the unemployment rate is based, Massachusetts employment growth has exceeded the nation’s both since the start and end of the most recent recession.

At the time of its enactment, the Commonwealth’s FY15 statutory-based budget assumed revenues of \$38.286 billion (net of tax revenues dedicated to funding the Massachusetts Bay Transit Authority and Massachusetts School Building Authority, and tax revenues allocated to the non-budgeted Workforce Training Fund, but including tax revenues allocated to budgeted pension contributions) an increase of \$2.813 billion, or 7.9%, from FY14, and expenditures of \$38.331 billion (including expenditures for pension contributions), an increase of \$2.433 billion, or 6.8%, from FY14. Tax revenues available for budget (including revenues allocated for budgeted pension expenditures) were projected to total \$23.604 billion, representing growth of \$1.242 billion, or 5.7% from FY14.

Based on tax revenue collections through September 2014, the Secretary for Administration and Finance affirmed the tax revenue estimate reflected in the enacted budget. Through November 30, 2014, tax revenue collections were reported by the Department of Revenue to have been \$48 million below the year-to-date benchmark based on the FY14 official tax revenue estimate. In November 2014, the Secretary estimated that FY15 tax revenue would be reduced by approximately \$70 million due to an anticipated reduction in the personal income tax rate, a reduction that was officially certified by the Department of Revenue on December 3, 2014.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Commonwealth’s finances and accountability for all of the Commonwealth’s citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed via email to [comptroller.info@state.ma.us](mailto:comptroller.info@state.ma.us) or mail to: Commonwealth of Massachusetts, Office of the State Comptroller, 1 Ashburton Place, 9<sup>th</sup> Floor, Boston, Massachusetts, 02108. You may also download this report at: <http://www.mass.gov/osc/publications-and-reports/financial-reports/cafr-reports.html>.



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# *Basic Financial Statements*



*Burkeville Covered Bridge - Conway*

*Government-wide Financial Statements*  
*Statement of Net Position*  
*Statement of Activities*

# Statement of Net Position

June 30, 2014

(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Government Wide Total	Component Units
ASSETS AND DEFERRED OUTFLOWS				
Current assets:				
Cash, cash equivalents and short-term investments.....	\$ 2,547,529	\$ 894,786	\$ 3,442,315	\$ 2,762,301
Cash with fiscal agent.....	307,371	-	307,371	-
Assets held in trust.....	-	-	-	194,137
Receivables, net of allowance for uncollectibles:				
Taxes.....	3,079,790	-	3,079,790	-
Federal grants and reimbursements receivable.....	1,957,550	87,106	2,044,656	188,428
Loans.....	8,710	48,092	56,802	482,962
Other receivables.....	386,096	627,381	1,013,477	233,656
Due from cities and towns.....	5,020	-	5,020	-
Due from component units.....	472	328	800	-
Due from primary government.....	-	-	-	573,596
Other current assets.....	-	33,815	33,815	59,312
Total current assets.....	8,292,538	1,691,508	9,984,046	4,494,392
Noncurrent assets:				
Cash and cash equivalents - restricted.....	-	747,011	747,011	1,017,547
Long - term investments.....	-	1,011,213	1,011,213	1,673,565
Investments, restricted investments and annuity contracts.....	2,474,298	924	2,475,222	157,173
Receivables, net of allowance for uncollectibles:				
Taxes.....	511,972	-	511,972	-
Federal grants and reimbursements receivable.....	62,064	-	62,064	-
Loans.....	107,898	12,268	120,166	4,053,861
Other receivables.....	108,165	44,107	152,272	14,927
Due from component units .....	9,996	-	9,996	-
Non-depreciable capital assets.....	1,708,949	1,255,528	2,964,477	7,306,047
Depreciable capital assets, net.....	2,863,672	4,940,621	7,804,293	25,750,603
Other noncurrent assets.....	-	42,113	42,113	35,588
Other noncurrent assets - restricted.....	-	984,644	984,644	-
Total noncurrent assets.....	7,847,014	9,038,429	16,885,443	40,009,311
Deferred outflows of resources:				
Deferred change in fair value of interest rate swaps.....	353,639	42,398	396,037	219,627
Deferred loss on refunding.....	151,948	100,921	252,869	390,500
Total deferred outflows of resources.....	505,587	143,319	648,906	610,127
Total assets and deferred outflows.....	16,645,139	10,873,256	27,518,395	45,113,830
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities.....	2,951,052	309,238	3,260,290	1,080,685
Accrued payroll.....	194,809	189,113	383,922	1,623
Compensated absences.....	348,880	141,272	490,152	34,046
Accrued interest payable.....	353,308	22,145	375,453	216,603
Tax refunds and abatements payable.....	1,073,247	6,194	1,079,441	-
Due to component units.....	541,254	354	541,608	-
Due to primary government.....	-	-	-	29,377
Due to federal government.....	23,962	-	23,962	-
Claims and judgments.....	33,203	-	33,203	-
Deferred revenue.....	-	107,617	107,617	302,182
Deposits and unearned revenue.....	-	69,826	69,826	-
School construction grants payable.....	397,171	-	397,171	-
Capital leases.....	9,383	4,852	14,235	4,160
Massachusetts School Building Authority bonds and unamortized premiums.....	157,204	-	157,204	-
Bonds payable and unamortized premiums.....	1,757,106	177,542	1,934,648	781,111
Environmental remediation liability.....	11,510	1,447	12,957	-
Total current liabilities.....	7,852,089	1,029,600	8,881,689	2,449,787



# Statement of Net Position

June 30, 2014

(Amounts in thousands)

	Primary Government		Government	Component Units
	Governmental Activities	Business-Type Activities	Wide Total	
Noncurrent liabilities:				
Compensated absences.....	178,320	64,089	242,409	18,444
Accrued interest payable.....	-	-	-	199,068
Due to primary government.....	-	-	-	9,996
Due to federal government - grants.....	-	10,750	10,750	-
Claims and judgments.....	2,500	-	2,500	-
Deferred revenue.....	-	-	-	55,348
Prizes payable.....	1,370,277	-	1,370,277	-
Capital leases.....	46,495	9,677	56,172	69,591
Bonds payable and unamortized premiums.....	21,333,328	4,066,189	25,399,517	11,353,138
Massachusetts School Building Authority bonds and unamortized premiums.....	5,986,042	-	5,986,042	-
School construction grants payable.....	927,387	-	927,387	-
Retirement system net pension obligations.....	2,218,980	-	2,218,980	-
Post - employment benefits obligations.....	4,832,000	-	4,832,000	863,748
Environmental remediation liability.....	205,836	-	205,836	-
Liability for derivative instruments.....	353,639	70,145	423,784	464,994
Other noncurrent liabilities.....	278,747	117,147	395,894	179,083
<b>Total noncurrent liabilities.....</b>	<b>37,733,551</b>	<b>4,337,997</b>	<b>42,071,548</b>	<b>13,213,410</b>
Deferred inflows of resources:				
Deferred service concession arrangements.....	-	18,018	18,018	-
Deferred gain on refunding.....	19,189	-	19,189	238
<b>Total deferred inflows of resources.....</b>	<b>19,189</b>	<b>18,018</b>	<b>37,207</b>	<b>238</b>
<b>Total liabilities and deferred inflows.....</b>	<b>45,604,829</b>	<b>5,385,615</b>	<b>50,990,444</b>	<b>15,663,435</b>
<b>NET POSITION</b>				
Net investment in capital assets.....	(502,370)	2,794,845	2,292,475	26,105,633
Restricted for:				
Unemployment benefits.....	-	1,366,423	1,366,423	-
Retirement of indebtedness.....	1,137,947	-	1,137,947	-
Higher education endowment funds.....	-	17,442	17,442	-
Higher education academic support and programs.....	-	3,377	3,377	-
Higher education scholarships and fellowships:				
Nonexpendable.....	-	3,176	3,176	-
Expendable.....	-	5,865	5,865	-
Other nonexpendable purposes.....	-	4,026	4,026	-
Capital projects - expendable purposes.....	-	1,744	1,744	-
Other purposes.....	317,757	188,492	506,249	3,667,519
Unrestricted (deficits).....	(29,913,024)	1,102,251	(28,810,773)	(322,757)
<b>Total net position.....</b>	<b>\$ (28,959,690)</b>	<b>\$ 5,487,641</b>	<b>\$ (23,472,049)</b>	<b>\$ 29,450,395</b>

The notes to the financial statements are an integral part of this statement.

(concluded)

**Statement of Activities**  
Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental Activities:								
General government.....	\$ 2,538,043	\$ 361,105	\$ 752,124	\$ -	\$ (1,424,813)	\$ -	\$ (1,424,813)	\$ -
Judiciary.....	1,027,875	108,766	1,436	-	(917,673)	-	(917,673)	-
Direct local aid.....	5,353,521	-	-	-	(5,353,521)	-	(5,353,521)	-
Medicaid.....	14,034,862	1,226,108	7,617,732	307	(5,190,714)	-	(5,190,714)	-
Group health insurance.....	1,403,590	660,359	-	-	(743,231)	-	(743,231)	-
Energy and environmental affairs.....	623,952	262,339	467,084	-	105,470	-	105,470	-
Housing and economic development.....	1,291,676	165,365	53,074	-	(1,073,237)	-	(1,073,237)	-
Health and human services.....	7,360,519	483,080	2,631,581	16,395	(4,229,463)	-	(4,229,463)	-
Transportation and public works.....	2,391,322	530,853	460	13,997	(1,846,011)	-	(1,846,011)	-
Early elementary and secondary education.....	4,545,848	10,067	1,229,640	-	(3,306,141)	-	(3,306,141)	-
Public safety and homeland security.....	2,503,812	228,730	202,798	-	(2,072,285)	-	(2,072,285)	-
Labor and workforce development.....	356,954	150,394	165,719	-	(40,841)	-	(40,841)	-
Lottery.....	3,980,980	5,049,536	-	-	1,068,556	-	1,068,556	-
Interest (unallocated).....	1,197,709	-	-	-	(1,197,709)	-	(1,197,709)	-
Total governmental activities .....	48,610,664	9,236,702	13,121,648	30,699	(26,221,614)	-	(26,221,614)	-
Business-Type Activities:								
Unemployment Compensation.....	2,036,431	1,897,495	502,102	-		363,166	363,166	-
Higher Education:								
University of Massachusetts.....	2,925,013	1,697,585	518,714	-		(708,714)	(708,714)	-
State Universities.....	922,383	558,170	68,647	-		(295,566)	(295,566)	-
Community Colleges.....	852,946	270,512	257,960	-		(324,474)	(324,474)	-
Total business-type activities .....	6,736,773	4,423,762	1,347,423	-	-	(965,588)	(965,588)	-
Total primary government .....	\$ 55,347,437	\$ 13,660,464	\$ 14,469,071	\$ 30,699	(26,221,614)	(965,588)	(27,187,202)	-
Component Units:								
Massachusetts Department of Transportation.....	\$ 4,841,647	\$ 1,322,535	\$ 1,955,084	\$ 2,334,862				770,834
Commonwealth Health Insurance Connector.....	874,825	796,883	76,830	-				(1,112)
Massachusetts Clean Water Trust.....	177,327	148,090	32,388	74,155				77,306
Other nonmajor component units.....	446,017	352,661	140,080	14,329				61,053
Total component units .....	\$ 6,339,816	\$ 2,620,169	\$ 2,204,382	\$ 2,423,346	-	-	-	908,081

(continued)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
General revenues:				
Taxes:				
Income.....	12,866,096	-	12,866,096	-
Sales taxes.....	5,542,740	-	5,542,740	-
Corporate taxes.....	2,172,608	-	2,172,608	-
Motor and special fuel taxes.....	740,128	-	740,128	-
Other taxes.....	1,997,596	-	1,997,596	-
Miscellaneous:				
Investment earnings.....	41,674	111,827	153,501	99,828
Tobacco settlement.....	282,049	-	282,049	-
Contribution from municipalities .....	41,700	-	41,700	-
Other revenue.....	766,330	316,944	1,083,274	43,896
Transfers.....	(1,205,141)	1,205,141	-	-
<b>Total general revenues and transfers .....</b>	<b>23,245,781</b>	<b>1,633,912</b>	<b>24,879,693</b>	<b>143,724</b>
<b>Change in net position .....</b>	<b>(2,975,834)</b>	<b>668,324</b>	<b>(2,307,510)</b>	<b>1,051,805</b>
Net position (deficits) - beginning, as restated .....	(25,983,856)	4,819,317	(21,164,539)	28,398,590
<b>Net position (deficits) - ending .....</b>	<b>\$ (28,959,690)</b>	<b>\$ 5,487,641</b>	<b>\$ (23,472,049)</b>	<b>\$ 29,450,395</b>

The notes to the financial statements are an integral part of this statement.

(concluded)



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# *Governmental Fund Financial Statements*



*Old North Bridge - Concord*

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2014**  
**(Amounts in thousands)**

	General	Lotteries	Massachusetts School Building Authority	Other Governmental Funds	Total
<b>ASSETS</b>					
Cash, cash equivalents and short-term investments.....	\$ 874,844	\$ 48,099	\$ 215,431	\$ 1,409,155	\$ 2,547,529
Cash with fiscal agent.....	-	-	-	307,371	307,371
Investments and restricted investments.....	261,837	-	842,184	-	1,104,021
Receivables, net of allowance for uncollectibles:					
Taxes.....	3,377,368	-	55,068	159,326	3,591,762
Due from federal government.....	1,593,740	-	-	425,874	2,019,614
Loan receivable.....	-	-	114,578	2,030	116,608
Other receivables.....	278,022	4,944	10,263	197,580	490,809
Due from cities and towns.....	5,020	-	-	-	5,020
Due from other funds.....	533,226	-	-	80,348	613,574
Due from component units.....	472	-	-	-	472
<b>Total assets.....</b>	<b>\$ 6,924,529</b>	<b>\$ 53,043</b>	<b>\$ 1,237,524</b>	<b>\$ 2,581,684</b>	<b>\$ 10,796,780</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable.....	\$ 2,100,085	\$ 45,754	\$ -	\$ 726,751	\$ 2,872,590
Accrued payroll.....	175,141	-	-	19,668	194,809
Tax refunds and abatements payable.....	1,072,899	-	174	174	1,073,247
Due to other funds.....	-	-	-	613,574	613,574
Due to component units.....	68,100	-	-	473,154	541,254
Due to federal government.....	23,962	-	-	-	23,962
Claims and judgments.....	33,203	-	-	-	33,203
School construction grants payable.....	-	-	64,044	-	64,044
Other accrued liabilities.....	-	-	-	78,462	78,462
<b>Total liabilities.....</b>	<b>3,473,390</b>	<b>45,754</b>	<b>64,218</b>	<b>1,911,783</b>	<b>5,495,145</b>
Deferred inflows of resources.....	615,825	5,240	-	61,136	682,201
<b>Total liabilities and deferred inflows of resources .....</b>	<b>4,089,215</b>	<b>50,994</b>	<b>64,218</b>	<b>1,972,919</b>	<b>6,177,346</b>
Fund balances:					
Nonspendable.....	-	-	-	1,116	1,116
Restricted.....	-	-	840,610	676,945	1,517,555
Committed.....	1,248,435	-	-	1,001,470	2,249,906
Assigned.....	154,358	2,049	332,696	21,250	510,353
Unassigned (deficits).....	1,432,521	-	-	(1,092,016)	340,505
<b>Fund balances.....</b>	<b>2,835,314</b>	<b>2,049</b>	<b>1,173,306</b>	<b>608,765</b>	<b>4,619,434</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 6,924,529</b>	<b>\$ 53,043</b>	<b>\$ 1,237,524</b>	<b>\$ 2,581,684</b>	<b>\$ 10,796,780</b>

The notes to the financial statements are an integral part of this statement.

# Reconciliation of Governmental Fund Balances to the Statement of Net Position

June 30, 2014  
(Amounts in thousands)

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<b>Total fund balances - governmental funds .....</b>	<b>\$</b>	<b>4,619,434</b>
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources  
and, therefore, are not reported in the funds. Those assets consist of:

Capital assets not being depreciated.....	\$ 1,708,949	
Capital assets being depreciated, net.....	<u>2,863,672</u>	
Capital assets, net of accumulated depreciation.....		4,572,621

Revenues are not available soon enough after year end to pay for the current period's expenditures and therefore are unavailable deferred inflows of resources in the governmental funds.....		682,201
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Massachusetts School Building Authority assets and deferred outflows.....		155,400
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Lottery annuity contracts.....		1,370,277
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Due from component units.....		9,996
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Certain liabilities, including bonds payable, are not due and  
payable in the current period and therefore are not reported  
in the funds. These liabilities include:

Pension over/(under) funding State Retirement Systems net pension obligation.....	(2,218,980)	
Net post-employment benefits obligations.....	(4,832,000)	
Commonwealth bonded debt.....	(22,419,852)	
Unamortized bond premiums.....	(670,582)	
Deferred loss/(gain) on refunding.....	(19,189)	
Accrued interest on bonds.....	(353,308)	
Massachusetts School Building Authority bonded debt.....	(6,143,246)	
Massachusetts School Building Authority grants to municipalities.....	(1,260,514)	
Prizes payable.....	(1,370,277)	
Capital leases.....	(55,878)	
Environmental remediation liability.....	(217,346)	
Claims and judgments.....	(2,500)	
Employee benefits, including compensated absences, health insurance benefits and other compensation claims.....	<u>(805,947)</u>	
Long - term liabilities (including current portions).....		<u>(40,369,619)</u>

<b>Total net (deficit) - governmental activities .....</b>	<b>\$</b>	<b><u>(28,959,690)</u></b>
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The notes to the financial statements are an integral part of this statement.

# Statement of Revenues, Expenditures and Changes in Fund Balances

## Governmental Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	General	Lotteries	Massachusetts School Building Authority	Other Governmental Funds	Total
<b>REVENUES</b>					
Taxes.....	\$ 20,667,904	\$ 631	\$ 731,239	\$ 2,386,427	\$ 23,786,201
Assessments.....	440,227	-	-	640,087	1,080,314
Federal grants and reimbursements.....	8,542,565	-	-	4,604,130	13,146,695
Departmental.....	2,470,761	5,048,502	-	1,121,025	8,640,288
Miscellaneous.....	470,116	694	69,519	515,736	1,056,065
<b>Total revenues.....</b>	<b>32,591,574</b>	<b>5,049,827</b>	<b>800,758</b>	<b>9,267,405</b>	<b>47,709,563</b>
<b>EXPENDITURES</b>					
Current:					
Legislature.....	56,299	-	-	-	56,299
Judiciary.....	814,405	-	-	1,322	815,727
Inspector General.....	6,162	-	-	12	6,174
Governor and Lieutenant Governor.....	5,144	-	-	89	5,233
Secretary of the Commonwealth.....	44,339	-	-	6,762	51,101
Treasurer and Receiver-General.....	206,885	3,979,882	13,374	1,126,734	5,326,875
Auditor of the Commonwealth.....	17,536	-	-	-	17,536
Attorney General.....	63,533	-	-	24,106	87,639
Ethics Commission.....	1,904	-	-	-	1,904
District Attorney.....	105,962	-	-	9,219	115,181
Office of Campaign and Political Finance.....	1,370	-	-	-	1,370
Sheriff's Departments.....	553,390	-	-	11,500	564,890
Disabled Persons Protection Commission.....	2,412	-	-	-	2,412
Board of Library Commissioners.....	22,184	-	-	2,994	25,178
Massachusetts Gaming Commission.....	-	-	-	22,869	22,869
Comptroller.....	12,811	-	-	3,482	16,293
Administration and Finance.....	1,942,401	-	-	353,775	2,296,176
Energy and Environmental Affairs.....	201,257	-	-	209,120	410,377
Health and Human Services.....	4,980,556	-	-	1,976,796	6,957,353
Massachusetts Department of Transportation.....	-	-	-	2,295,787	2,295,787
Executive Office of Education.....	2,156,311	-	-	1,044,484	3,200,795
Center for Health and Information Analysis.....	23,706	-	-	1,967	25,673
Massachusetts School Building Assistance.....	-	-	868,948	-	868,948
Public Safety and Homeland Security.....	1,058,890	-	-	214,918	1,273,808
Housing and Economic Development.....	499,814	-	-	535,294	1,035,108
Labor and Workforce development.....	56,419	-	-	274,066	330,485
Medicaid.....	12,247,883	-	-	1,786,979	14,034,862
Post employment benefits.....	864,693	-	-	-	864,693
Direct local aid.....	5,353,467	-	-	-	5,353,467
Capital outlay:					
Local aid.....	-	-	-	54	54
Capital acquisition and construction.....	-	-	-	998,484	998,484
Debt service.....	-	-	394,516	2,374,950	2,769,466
Principal on current refundings.....	-	-	-	159,335	159,335
<b>Total expenditures.....</b>	<b>31,299,733</b>	<b>3,979,882</b>	<b>1,276,838</b>	<b>13,435,098</b>	<b>49,991,552</b>
<b>Excess (deficiency) of revenues over (under) expenditures.....</b>	<b>1,291,841</b>	<b>1,069,945</b>	<b>(476,080)</b>	<b>(4,167,694)</b>	<b>(2,281,988)</b>
<b>OTHER FINANCING SOURCES</b>					
Bonds premium.....	-	-	-	192,575	192,575
Issuance of general and special obligation bonds.....	-	-	599,125	2,359,899	2,959,024
Issuance of current refunding bonds.....	-	-	-	159,335	159,335
Issuance of advance refunding bonds.....	-	-	-	477,460	477,460
Proceeds of capital leases.....	10,571	-	-	-	10,571
Transfers in for debt service.....	-	-	-	2,374,950	2,374,950
Transfers in.....	1,523,264	-	-	1,803,228	3,326,492
<b>Total other financing sources.....</b>	<b>1,533,835</b>	<b>-</b>	<b>599,125</b>	<b>7,367,447</b>	<b>9,500,407</b>
<b>OTHER FINANCING USES</b>					
Payments to refunding bond escrow agent.....	-	-	-	562,352	562,352
Transfers out.....	1,104,450	1,069,958	-	1,061,286	3,235,694
Transfers of appropriations.....	1,058,662	-	-	21,587	1,080,249
Transfers of bond proceeds.....	-	-	-	215,690	215,690
Transfers out for debt service.....	1,060,211	-	-	1,314,739	2,374,950
<b>Total other financing uses.....</b>	<b>3,223,323</b>	<b>1,069,958</b>	<b>-</b>	<b>3,175,655</b>	<b>7,468,936</b>
<b>Total other financing sources and uses.....</b>	<b>(1,689,488)</b>	<b>(1,069,958)</b>	<b>599,125</b>	<b>4,191,792</b>	<b>2,031,471</b>
<b>Net change in fund balances (deficits).....</b>	<b>(397,647)</b>	<b>(13)</b>	<b>123,045</b>	<b>24,098</b>	<b>(250,517)</b>
Fund balances at beginning of year.....	3,232,961	2,062	1,050,261	584,667	4,869,951
<b>Fund balances at end of year.....</b>	<b>\$ 2,835,314</b>	<b>\$ 2,049</b>	<b>\$ 1,173,306</b>	<b>\$ 608,765</b>	<b>\$ 4,619,434</b>

The notes to the financial statements are an integral part of this statement



**Reconciliation of Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Funds  
to the Statement of Activities**

For the fiscal year ended June 30, 2014

(Amounts in thousands)

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<b>Net change in fund balances - total governmental funds.....</b>	<b>\$</b>	<b>(250,517)</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents capital outlays including increases to construction in process, but excluding

reductions and dispositions..... 401,844

Current year depreciation expense..... (195,292)

Amounts presented in the statement of activities, but not in the change in fund fund balances due to difference in revenue and expense recognition under different bases of accounting.....

(485,171)

The issuance of long - term debt provides current financial resources to governmental funds, while the repayment of principal of long - term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized as part of the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.....

(1,094,399)

Decrease in capital leases..... (5,047)

Massachusetts School Building Authority..... (261,551)

Net underfunding of post employment benefit obligations..... (1,088,971)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued interest, lottery prizes, claims and benefits that are reported in the statement of activities, but not in funds.....

3,271

<b>Change in net position of governmental activities .....</b>	<b>\$</b>	<b>(2,975,834)</b>
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The notes to the financial statements are an integral part of this statement



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# *Proprietary Fund Financial Statements*



*Bass River Bridge - Dennis*

# Statement of Net Position

## Proprietary Funds

June 30, 2014

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
<b>ASSETS AND DEFERRED OUTFLOWS</b>					
Current assets:					
Cash and cash equivalents.....	\$ 26,369	\$ 91,619	\$ 378,721	\$ 117,299	\$ 614,008
Short-term investments.....	-	192,957	25,701	62,120	280,778
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursements receivable.....	-	81,006	1,295	4,805	87,106
Loans.....	-	46,573	1,329	190	48,092
Other receivables.....	414,789	114,897	20,766	36,122	586,574
Due from affiliates.....	-	40,807	-	-	40,807
Due from foundation.....	-	181	37	110	328
Other current assets.....	-	24,710	4,947	4,158	33,815
<b>Total current assets.....</b>	<b>441,158</b>	<b>592,750</b>	<b>432,796</b>	<b>224,804</b>	<b>1,691,508</b>
Noncurrent assets:					
Cash and cash equivalents - restricted.....	-	712,615	32,309	2,087	747,011
Long-term investments.....	-	775,953	196,596	38,664	1,011,213
Investments, restricted investments and annuity contracts.....	-	-	924	-	924
Accounts receivable, net.....	-	40,498	3,609	-	44,107
Loans receivable, net.....	-	-	11,784	484	12,268
Non-depreciable capital assets.....	-	848,253	330,006	77,269	1,255,528
Depreciable capital assets, net.....	-	3,202,037	1,368,033	370,551	4,940,621
Other noncurrent assets.....	-	28,821	13,277	15	42,113
Other noncurrent assets - restricted.....	984,644	-	-	-	984,644
<b>Total noncurrent assets.....</b>	<b>984,644</b>	<b>5,608,177</b>	<b>1,956,538</b>	<b>489,070</b>	<b>9,038,429</b>
Deferred outflows of resources:					
Deferred change in fair value of interest rate swaps.....	-	41,082	-	1,316	42,398
Loss on debt refunding.....	-	71,798	29,123	-	100,921
Total deferred outflows of resources.....	-	112,880	29,123	1,316	143,319
<b>Total assets and deferred outflows.....</b>	<b>1,425,802</b>	<b>6,313,807</b>	<b>2,418,457</b>	<b>715,190</b>	<b>10,873,256</b>
<b>LIABILITIES AND DEFERRED INFLOWS</b>					
Current liabilities:					
Accounts payable and other liabilities.....	53,185	177,785	51,909	26,359	309,238
Accrued payroll.....	-	110,464	44,143	34,506	189,113
Compensated absences.....	-	74,092	32,623	34,557	141,272
Accrued interest payable.....	-	21,872	131	142	22,145
Tax refunds and abatements payable.....	6,194	-	-	-	6,194
Deferred revenue.....	-	-	104,168	3,449	107,617
Student deposits and unearned revenues.....	-	40,923	9,972	18,931	69,826
Due to Foundation.....	-	354	-	-	354
Capital leases.....	-	2,232	1,227	1,393	4,852
Environmental remediation liability.....	-	-	1,447	-	1,447
Bonds, notes payable and other obligations.....	-	137,321	35,647	4,574	177,542
<b>Total current liabilities.....</b>	<b>59,379</b>	<b>565,043</b>	<b>281,267</b>	<b>123,911</b>	<b>1,029,600</b>
Noncurrent liabilities:					
Compensated absences.....	-	31,779	16,050	16,260	64,089
Due to federal government - grants.....	-	-	10,735	15	10,750
Capital leases.....	-	-	7,046	2,631	9,677
Bonds, notes payable and other obligations.....	-	2,726,436	1,280,425	59,328	4,066,189
Liability for derivative instruments.....	-	68,843	-	1,302	70,145
Other noncurrent liabilities.....	-	103,411	8,203	5,533	117,147
<b>Total noncurrent liabilities.....</b>	<b>-</b>	<b>2,930,469</b>	<b>1,322,459</b>	<b>85,069</b>	<b>4,337,997</b>
Deferred inflows of resources:					
Deferred service concession arrangements.....	-	-	17,664	354	18,018
<b>Total liabilities and deferred inflows.....</b>	<b>59,379</b>	<b>3,495,512</b>	<b>1,621,390</b>	<b>209,334</b>	<b>5,385,615</b>
<b>NET POSITION</b>					
Net investment in capital assets.....	-	1,800,767	608,062	386,016	2,794,845
Restricted for:					
Unemployment benefits.....	1,366,423	-	-	-	1,366,423
Higher education endowment funds.....	-	17,387	35	20	17,442
Higher education academic support and programs.....	-	-	-	3,377	3,377
Higher education scholarships and fellowships:					
Nonexpendable.....	-	-	3,176	-	3,176
Expendable.....	-	-	4,812	1,053	5,865
Other nonexpendable purposes.....	-	-	4,026	-	4,026
Capital projects - expendable purposes.....	-	-	1,744	-	1,744
Other purposes.....	-	174,530	12,142	1,820	188,492
Unrestricted.....	-	825,611	163,070	113,570	1,102,251
<b>Total net position.....</b>	<b>\$ 1,366,423</b>	<b>\$ 2,818,295</b>	<b>\$ 797,067</b>	<b>\$ 505,856</b>	<b>\$ 5,487,641</b>

The notes to the financial statements are an integral part of this statement.

# Statement of Revenues, Expenses and Changes in Net Position

## Proprietary Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
<b>Operating revenues:</b>					
Unemployment compensation contribution.....	\$ 1,858,020	\$ -	\$ -	\$ -	\$ 1,858,020
Net tuition and fees.....	-	740,116	350,303	208,793	1,299,212
Grants and reimbursements.....	-	511,694	68,647	257,960	838,301
Auxiliary enterprises.....	-	349,485	102,560	14,848	466,893
Sales & services.....	-	514,566	91,865	28,694	635,125
Miscellaneous.....	39,475	93,418	13,442	18,177	164,512
<b>Total operating revenues.....</b>	<b>1,897,495</b>	<b>2,209,279</b>	<b>626,817</b>	<b>528,472</b>	<b>5,262,063</b>
<b>Operating expenses:</b>					
Unemployment compensation.....	2,036,431	-	-	-	2,036,431
Instruction.....	-	690,635	284,807	316,972	1,292,414
Research.....	-	407,425	2	11	407,438
Academic support.....	-	151,000	79,723	93,409	324,132
Student services.....	-	119,295	92,062	113,226	324,583
Scholarships and fellowships.....	-	49,242	23,396	79,235	151,873
Public service.....	-	77,985	4,710	9,843	92,538
Operation and maintenance of plant.....	-	214,972	84,715	74,150	373,837
Institutional support.....	-	219,920	105,613	113,038	438,571
Other operating expenses.....	-	414,090	2,881	4,832	421,803
Depreciation.....	-	200,256	73,188	30,383	303,827
Auxiliary operations.....	-	265,080	124,128	14,498	403,706
<b>Total operating expenses.....</b>	<b>2,036,431</b>	<b>2,809,900</b>	<b>875,225</b>	<b>849,597</b>	<b>6,571,153</b>
<b>Operating income/(loss).....</b>	<b>(138,936)</b>	<b>(600,621)</b>	<b>(248,408)</b>	<b>(321,125)</b>	<b>(1,309,090)</b>
<b>Nonoperating revenues/(expenses):</b>					
Other federal revenues.....	486,160	7,020	-	-	493,180
Other revenues.....	-	205,864	88,355	22,725	316,944
Other expenses.....	-	(115,113)	(47,158)	(3,349)	(165,620)
Investment income/(loss).....	15,942	86,685	15,583	9,559	127,769
<b>Total nonoperating revenues/(expenses).....</b>	<b>502,102</b>	<b>184,456</b>	<b>56,780</b>	<b>28,935</b>	<b>772,273</b>
<b>Income/(loss) before transfers.....</b>	<b>363,166</b>	<b>(416,165)</b>	<b>(191,628)</b>	<b>(292,190)</b>	<b>(536,817)</b>
Transfers, net.....	-	620,103	271,651	313,387	1,205,141
<b>Change in net position.....</b>	<b>363,166</b>	<b>203,938</b>	<b>80,023</b>	<b>21,197</b>	<b>668,324</b>
Total net position - beginning, as restated.....	1,003,257	2,614,357	717,044	484,659	4,819,317
<b>Total net position - ending.....</b>	<b>\$ 1,366,423</b>	<b>\$ 2,818,295</b>	<b>\$ 797,067</b>	<b>\$ 505,856</b>	<b>\$ 5,487,641</b>

The notes to the financial statements are an integral part of this statement.

# Statement of Cash Flows

## Proprietary Funds

June 30, 2014

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Collection of unemployment contributions.....	\$ 1,579,214	\$ -	\$ -	\$ -	\$ 1,579,214
Tuition, residence, dining and other student fees.....	-	793,246	356,525	227,236	1,377,007
Research grants and contracts.....	-	798,973	154,085	282,305	1,235,363
Payments to suppliers.....	-	(1,273,332)	(229,378)	(216,673)	(1,719,383)
Payments to employees.....	-	(1,587,022)	(453,310)	(470,958)	(2,511,290)
Payments to students.....	-	(56,448)	(20,432)	(72,018)	(148,898)
Payments for unemployment benefits.....	(2,109,271)	-	-	-	(2,109,271)
Collection of loans to students and employees.....	-	5,302	1,463	33	6,798
Income from contract services.....	-	-	4,847	2,278	7,125
Maintenance costs.....	-	-	(936)	-	(936)
Auxiliary enterprise charges.....	-	336,456	59,635	(4,970)	391,121
Other receipts.....	39,475	575,524	15,824	32,363	663,186
<b>Net cash used by operating activities.....</b>	<b>(490,582)</b>	<b>(407,301)</b>	<b>(111,677)</b>	<b>(220,404)</b>	<b>(1,229,964)</b>
<b>CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
State appropriations.....	-	594,212	232,571	248,414	1,075,197
Grants and contracts.....	486,160	74,279	606	606	561,651
Student organizations agency transactions.....	-	30	-	219	249
Principal on notes payable.....	-	-	-	(288)	(288)
<b>Net cash provided by non-capital financing activities.....</b>	<b>486,160</b>	<b>668,521</b>	<b>233,177</b>	<b>248,951</b>	<b>1,636,809</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Capital appropriations.....	-	112,132	4,932	5,017	122,081
Purchases of capital assets.....	-	(565,648)	(184,775)	(20,159)	(770,582)
Proceeds from sales of capital assets.....	-	-	2	-	2
Proceeds from revenue obligation debt issuance.....	-	587,555	187,561	11,090	786,206
Other capital asset activity.....	-	33,937	(31,756)	(969)	1,212
Investments held by bond trustee, net.....	-	-	(1,150)	2,720	1,570
Principal paid on capital debt and leases.....	-	(257,837)	(32,259)	(15,215)	(305,311)
Interest paid on capital debt and leases.....	-	(104,441)	(59,732)	(2,959)	(167,132)
<b>Net cash provided by (used in) capital financing activities.....</b>	<b>-</b>	<b>(194,302)</b>	<b>(117,177)</b>	<b>(20,475)</b>	<b>(331,954)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments.....	-	1,141,206	196,207	94,955	1,432,368
Purchases of investments.....	-	(1,162,801)	(192,504)	(87,437)	(1,442,742)
Investment earnings.....	15,942	8,959	6,516	621	32,038
<b>Net cash provided by (used by) investing activities.....</b>	<b>15,942</b>	<b>(12,636)</b>	<b>10,219</b>	<b>8,139</b>	<b>21,664</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>11,520</b>	<b>54,282</b>	<b>14,542</b>	<b>16,211</b>	<b>96,555</b>
Cash and cash equivalents at the beginning of the fiscal year.....	14,849	749,952	396,488	103,175	1,264,464
<b>Cash and cash equivalents at the end of the fiscal year.....</b>	<b>\$ 26,369</b>	<b>\$ 804,234</b>	<b>\$ 411,030</b>	<b>\$ 119,386</b>	<b>\$ 1,361,019</b>
<b>Reconciliation of net operating revenues and expenses to cash used by operating activities:</b>					
<b>Operating loss.....</b>	<b>\$ (138,936)</b>	<b>\$ (600,621)</b>	<b>\$ (248,408)</b>	<b>\$ (321,125)</b>	<b>\$ (1,309,090)</b>
<b>Adjustments to reconcile operating loss to net cash used by operating activities:</b>					
Depreciation expense.....	-	200,256	73,188	30,383	303,827
Fringe benefits paid by the Commonwealth.....	-	-	55,975	64,503	120,478
<b>Changes in assets and liabilities:</b>					
Accounts receivable, prepaids and other assets.....	23,233	(6,609)	1,897	(1,191)	17,330
Accounts payable, accrued liabilities and benefits.....	(72,840)	754	7,165	4,155	(60,766)
Student deposits and other unearned and deferred revenues.....	-	696	979	854	2,529
Other noncurrent assets - restricted and liabilities.....	(302,039)	(1,777)	(2,473)	2,017	(304,272)
<b>Net cash used by operating activities.....</b>	<b>\$ (490,582)</b>	<b>\$ (407,301)</b>	<b>\$ (111,677)</b>	<b>\$ (220,404)</b>	<b>\$ (1,229,964)</b>

### Non-cash investing, capital and financing activities:

The University System had approximately \$74 million of non-cash activities, and the State Universities and Community Colleges had approximately \$298 million and \$82 million, respectively, of non-cash activities, including new capital leases.

The notes to the financial statements are an integral part of this statement.

# *Fiduciary Fund Financial Statements*



*Stockbridge, MA*

## Statement of Net Position

Fiduciary Funds

June 30, 2014

(Amounts in thousands)

	Post-Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds	Agency Funds
<b>ASSETS</b>				
Cash and short-term investments.....	\$ -	\$ -	\$ 819	\$ 679,599
Assets held in trust for post-employment benefits:				
Cash and short-term investments.....	238,343	-	-	-
Net investment in PRIT at fair value.....	49,752,178	10,923,596	-	-
Assets held in trust for pool participants:				
Cash and short-term investments.....	-	2,747,948	-	-
Investments, restricted investments and annuity contracts.....	-	-	-	1,960,631
Receivables, net of allowance for uncollectibles:				
Taxes.....	-	-	-	2,183
Other receivables.....	85,992	-	-	134,492
Other assets.....	15,405	-	-	-
<b>Total assets.....</b>	<b>50,091,918</b>	<b>13,671,544</b>	<b>819</b>	<b>2,776,905</b>
<b>LIABILITIES</b>				
Accounts payable and other accrued liabilities.....	17,308	-	-	137,256
Due to cities and towns.....	-	-	-	33,065
Lottery prizes payable.....	-	-	-	1,370,277
Agency liabilities.....	-	-	-	1,236,307
<b>Total liabilities.....</b>	<b>17,308</b>	<b>-</b>	<b>-</b>	<b>\$ 2,776,905</b>
<b>NET POSITION</b>				
Restricted for employees' post-employment benefits.....	50,074,610	-	-	
Restricted for external investment trust fund participants.....	-	13,671,544	-	
Restricted for private purposes.....	-	-	819	
<b>Total net position.....</b>	<b>\$ 50,074,610</b>	<b>\$ 13,671,544</b>	<b>\$ 819</b>	

The notes to the financial statements are an integral part of this statement.



# Statement of Changes in Net Position

## Fiduciary Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Post - Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds
<b>ADDITIONS</b>			
Contribution:			
Employer contributions.....	\$ 1,081,091	\$ -	\$ -
Non-employer contributions.....	1,035,418	-	-
Employee contributions.....	1,154,434	793,507	-
Proceeds from sale of units.....	-	20,642,368	-
Other additions.....	122,894	-	-
<b>Total contributions.....</b>	<b>3,393,837</b>	<b>21,435,875</b>	<b>-</b>
Net investment gain/(loss):			
Investment gain/(loss).....	7,663,234	1,678,298	-
Less: investment expense.....	(247,698)	(73,741)	-
<b>Net investment gain/(loss).....</b>	<b>7,415,536</b>	<b>1,604,557</b>	<b>-</b>
<b>Total additions.....</b>	<b>10,809,373</b>	<b>23,040,432</b>	<b>-</b>
<b>DEDUCTIONS</b>			
Administration.....	77,937	-	-
Retirement benefits and refunds.....	4,797,113	739,175	-
Payments to State Boston Retirement System.....	99,532	-	-
Cost of units redeemed.....	-	20,606,497	-
Distribution to unit holders.....	-	5,705	-
<b>Total deductions.....</b>	<b>4,974,582</b>	<b>21,351,377</b>	<b>-</b>
<b>Net increase/(decrease).....</b>	<b>5,834,791</b>	<b>1,689,055</b>	<b>-</b>
Net position - beginning.....	44,239,819	11,982,489	819
<b>Net position - ending.....</b>	<b>\$ 50,074,610</b>	<b>\$ 13,671,544</b>	<b>\$ 819</b>

The notes to the financial statements are an integral part of this statement



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# *Discretely Presented Component Unit Financial Statements*



*Bourne Bridge*

**Statement of Net Position**  
**Component Units**  
**June 30, 2014**  
(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Clean Water Trust	Nonmajor Component Units	Total
<b>ASSETS AND DEFERRED OUTFLOWS</b>					
Current assets:					
Cash and cash equivalents.....	\$ 368,390	\$ 38,469	\$ 367,669	\$ 184,678	\$ 959,206
Short-term investments.....	-	-	43,576	266,460	310,036
Restricted cash and investments.....	1,382,468	3,532	-	107,059	1,493,059
Assets held in trust.....	-	-	16,540	177,597	194,137
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursement receivable.....	73,014	33,100	81,507	807	188,428
Loans.....	-	4,277	437,317	41,368	482,962
Other receivables.....	145,055	-	58,520	30,081	233,656
Due from primary government.....	470,968	34,174	-	68,454	573,596
Inventory.....	-	-	-	195	195
Other current assets.....	39,610	110	-	19,397	59,117
<b>Total current assets.....</b>	<b>2,479,505</b>	<b>113,662</b>	<b>1,005,129</b>	<b>896,096</b>	<b>4,494,392</b>
Noncurrent assets:					
Cash and cash equivalents - restricted.....	909,409	-	-	108,138	1,017,547
Long-term investments.....	-	-	1,029,899	643,666	1,673,565
Restricted investments and annuity contracts.....	-	-	-	157,173	157,173
Accounts receivables, net.....	5,216	-	-	9,711	14,927
Loans receivables, net.....	-	-	3,469,108	584,753	4,053,861
Non-depreciable capital assets.....	7,078,091	-	-	227,956	7,306,047
Depreciable capital assets, net.....	24,699,239	743	-	1,050,621	25,750,603
Other noncurrent assets.....	23,564	-	42	11,982	35,588
<b>Total noncurrent assets.....</b>	<b>32,715,519</b>	<b>743</b>	<b>4,499,049</b>	<b>2,794,000</b>	<b>40,009,311</b>
Deferred outflows of resources:					
Deferred change in fair value of interest rate swaps.....	203,156	-	2,206	14,265	219,627
Deferred loss on refunding.....	279,490	-	111,010	-	390,500
<b>Total deferred outflows of resources.....</b>	<b>482,646</b>	<b>-</b>	<b>113,216</b>	<b>14,265</b>	<b>610,127</b>
<b>Total assets and deferred outflows.....</b>	<b>35,677,670</b>	<b>114,405</b>	<b>5,617,394</b>	<b>3,704,361</b>	<b>45,113,830</b>
<b>LIABILITIES AND DEFERRED INFLOWS</b>					
Current liabilities:					
Accounts payable and other liabilities.....	885,996	70,817	16,977	106,895	1,080,685
Accrued payroll.....	-	623	-	1,000	1,623
Compensated absences.....	31,205	-	-	2,841	34,046
Accrued interest payable.....	161,266	-	53,749	1,588	216,603
Due to primary government.....	28,577	-	-	800	29,377
Deferred revenue.....	59,214	12,827	-	230,141	302,182
Capital leases.....	3,867	-	-	293	4,160
Bonds, notes payable and other obligations.....	554,780	-	205,540	20,791	781,111
<b>Total current liabilities.....</b>	<b>1,724,905</b>	<b>84,267</b>	<b>276,266</b>	<b>364,349</b>	<b>2,449,787</b>
Noncurrent liabilities:					
Compensated absences.....	16,974	-	-	1,470	18,444
Accrued interest payable.....	196,429	-	-	2,639	199,068
Due to primary government.....	-	-	-	9,996	9,996
Deferred revenue.....	-	-	28,065	27,283	55,348
Capital leases.....	69,591	-	-	-	69,591
Bonds, notes payable and other obligations.....	7,497,768	-	3,183,470	671,900	11,353,138
Post-employment benefits obligations.....	854,571	3,064	-	6,113	863,748
Liability for derivative instruments.....	448,523	-	2,206	14,265	464,994
Other noncurrent liabilities.....	144,833	-	-	34,250	179,083
<b>Total noncurrent liabilities.....</b>	<b>9,228,689</b>	<b>3,064</b>	<b>3,213,741</b>	<b>767,916</b>	<b>13,213,410</b>
Deferred inflows of resources:					
Deferred gain on refundings.....	238	-	-	-	238
<b>Total liabilities and deferred inflows.....</b>	<b>10,953,832</b>	<b>87,331</b>	<b>3,490,007</b>	<b>1,132,265</b>	<b>15,663,435</b>
<b>NET POSITION</b>					
Net investment in capital assets.....	24,973,627	743	-	1,131,263	26,105,633
Restricted for:					
Clean energy trusts.....	-	-	-	221,105	221,105
Economic development financing.....	-	-	-	172,629	172,629
Other purposes.....	839,181	-	1,718,052	716,552	3,273,785
Unrestricted.....	(1,088,970)	26,331	409,335	330,547	(322,757)
<b>Total net position.....</b>	<b>\$ 24,723,838</b>	<b>\$ 27,074</b>	<b>\$ 2,127,387</b>	<b>\$ 2,572,096</b>	<b>\$ 29,450,395</b>

The notes to the financial statements are an integral part of this statement.

# Statement of Revenues, Expenses and Changes in Net Position

## Component Units

Fiscal Year Ending June 30, 2014

(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Clean Water Trust	Nonmajor Component Units	Total
<b>Operating revenues:</b>					
Charges for services.....	\$ 1,255,832	\$ 776,053	\$ 5,156	\$ 230,354	\$ 2,267,395
Other.....	66,703	20,830	142,934	122,307	352,774
<b>Total operating revenues.....</b>	<b>1,322,535</b>	<b>796,883</b>	<b>148,090</b>	<b>352,661</b>	<b>2,620,169</b>
<b>Operating expenses:</b>					
Cost of services .....	2,980,957	776,052	169,467	229,365	4,155,841
Administration costs.....	804,086	98,687	7,860	154,797	1,065,430
Depreciation.....	1,056,604	86	-	61,855	1,118,545
<b>Total operating expenses.....</b>	<b>4,841,647</b>	<b>874,825</b>	<b>177,327</b>	<b>446,017</b>	<b>6,339,816</b>
<b>Operating income (loss).....</b>	<b>(3,519,112)</b>	<b>(77,942)</b>	<b>(29,237)</b>	<b>(93,356)</b>	<b>(3,719,647)</b>
<b>Nonoperating revenues (expenses):</b>					
Operating grants.....	1,955,084	76,830	32,388	140,080	2,204,382
Interest income.....	29,121	61	-	70,646	99,828
Other nonoperating revenues (expenses).....	23,841	-	(20,812)	40,867	43,896
<b>Nonoperating revenues (expenses), net.....</b>	<b>2,008,046</b>	<b>76,891</b>	<b>11,576</b>	<b>251,593</b>	<b>2,348,106</b>
<b>Income (loss) before contributions.....</b>	<b>(1,511,066)</b>	<b>(1,051)</b>	<b>(17,661)</b>	<b>158,237</b>	<b>(1,371,541)</b>
Capital contributions.....	2,334,862	-	74,155	14,329	2,423,346
<b>Change in net position (deficits).....</b>	<b>823,796</b>	<b>(1,051)</b>	<b>56,494</b>	<b>172,566</b>	<b>1,051,805</b>
Net position - beginning, as restated.....	23,900,042	28,125	2,070,893	2,399,530	28,398,590
<b>Net position - ending.....</b>	<b>\$ 24,723,838</b>	<b>\$ 27,074</b>	<b>\$ 2,127,387</b>	<b>\$ 2,572,096</b>	<b>\$ 29,450,395</b>

The notes to the financial statements are an integral part of this statement.



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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### A. FINANCIAL REPORTING ENTITY – BASIS OF PRESENTATION

The accompanying financial statements of the Commonwealth of Massachusetts (Commonwealth) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

The Commonwealth is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 160 members; and the Judicial Branch, made up of the Supreme Judicial Court, the Appeals Court and the Trial Court. In addition, the Legislature has established 57 independent authorities and agencies. Below the level of state government are 351 cities and towns exercising the functions of local governments. The cities and towns of the Commonwealth are also organized into 14 counties, but 7 of those county governments have been abolished in recent years.

For financial reporting purposes, the Commonwealth has included all funds, organizations, agencies, boards, commissions and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable, as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth (the primary government) and its component units. The Commonwealth has included 40 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth. Additional information related to the component units are found in note 13 to the basic financial statements.

*Blended Component Units* – Blended component units are entities that are legally separate from the Commonwealth but are so related to the Commonwealth, that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The net position and results of operations of the following legally separate entities are presented as part of the Commonwealth's operations:

**The Massachusetts School Building Authority (MSBA)** is charged with administering the Commonwealth's school construction and renovation program. The MSBA's sole revenues are from dedicated sales taxes from the Commonwealth, that starting in FY11, increased to 1% of applicable sales in the Commonwealth but with no annual floor or ceiling. The MSBA's bonded debt is secured by these sales tax revenues. Expenditures by the MSBA are made on behalf of the Commonwealth as a successor to a long-standing Commonwealth program of school construction. The MSBA's operations and results thereon are blended with the Commonwealth and as such are reported as a major governmental fund.

**The Pension Reserves Investment Trust Fund (PRIT)** is the investment portfolio for the pension assets of the Commonwealth and as such, is presented as a blended component unit. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board. Certain portions of PRIT's net position totaling approximately \$10.924 billion relate to holdings on behalf of cities and towns that participate in the Pool and are reported as an external investment trust within the fiduciary fund type.

**The Massachusetts Municipal Depository Trust (MMDT)** is an investment pool of the Commonwealth and its political subdivisions. The various local governments and other political subdivisions share of net position is approximately \$2.748 billion at June 30, 2014, and is reported as an external investment trust within the fiduciary fund type.

*Departments Audited Separately from the Commonwealth but not legally separate from the Commonwealth* - the following entities are audited separately from the Commonwealth but are not legally separate from the Commonwealth:

**The Massachusetts State Lottery Commission**, a division of the Office of the State Treasurer and Receiver-General, operates the Commonwealth's lottery. The net position of the Commission and results thereon are presented as a major governmental fund.

The Institutions of Higher Education of the Commonwealth are also not legally separate from the Commonwealth and have operations and net position that are presented as part of the Commonwealth's business-type activities. These systems include:

**The University of Massachusetts System** including the University of Massachusetts Building Authority, and the Worcester City Campus Corporation. The Worcester City Campus Corporation includes a not-for-profit subsidiary, the Worcester Foundation for Biomedical Research, Inc.

**The State University and Community College Systems** including the 9 state universities and 15 community colleges located throughout the Commonwealth and the Massachusetts State College Building Authority.

*Other Discretely Presented Component Units that are Separately Audited* – Discrete component units are entities which are legally separate (often called Authorities) but financially accountable to the Commonwealth, or whose relationships with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The component units column of the basic financial statements includes the financial data of the following entities:

*Major component units:*

**The Massachusetts Department of Transportation (MassDOT)** incorporates the former Massachusetts Turnpike Authority and has jurisdiction over the Massachusetts Bay Transportation Authority (MBTA) and the Regional Transit Authorities.

**The Massachusetts Clean Water Trust** provides a combination of federal and Commonwealth funds for water and sewer projects around the Commonwealth as operator of the Commonwealth's State Revolving Fund.

**Commonwealth Insurance Connector Authority** administers the Commonwealth health insurance programs to facilitate subsidized health insurance for individuals without access to employer-sponsored health insurance as well as offer an affordable commercial health insurance product named Commonwealth Care to small businesses that are eligible for the program.

#### *The Massachusetts Department of Transportation*

The Commonwealth made a significant structural change to the government operations in FY10. Understanding the financial impact of this change is integral to understanding the Commonwealth financial statements. In June of 2009, the Commonwealth enacted legislation effective on November 1, 2009, implementing sweeping transportation reform and creating a new entity, the Massachusetts Department of Transportation (MassDOT).

MassDOT has attributes of a state department as well as an authority. It operates like a state department for purposes of state finance laws and is reported as part of the Commonwealth for compliance with federal and state tax law as well as the State Single Audit. In this unique relationship all road and bridge assets of the Commonwealth and the Turnpike Authority have been transferred to MassDOT, while the Commonwealth will continue to hold current and future debt for the construction repair, improvement and replacement of these assets. The Commonwealth also retains the liabilities for pension and other post-employment benefits (OPEB) costs for the former Commonwealth employees transferred to this entity and has assumed these liabilities for the 1,200 employees and 700 retirees of the former Turnpike Authority. MassDOT is assessed a fringe benefit rate on their current employee base to share in these pension and OPEB costs as well as to reimburse the Commonwealth for MassDOT's employee health care costs, which are paid from the Commonwealth's General Fund. MassDOT's capital authorizations are authorized by the legislature and controlled by the Executive Office for Administration and Finance like other state departments. Toll revenues are retained and expended by MassDOT. All non-toll revenues (primarily Registry fees and federal reimbursements) are deposited with the Commonwealth and used to finance MassDOT operating appropriations and infrastructure improvements. The result of this unique structure is that the Commonwealth retains significant liabilities for resources dedicated to the construction of assets controlled and managed by MassDOT.

*Related Organizations*

The following are “related organizations” under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14* and Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*: Massachusetts Port Authority, Massachusetts Housing Finance Agency and MassVentures. The Commonwealth is responsible for appointing a voting majority of the members of each entity’s board, but the Commonwealth’s accountability does not extend beyond the appointments. These entities do not meet the criteria for inclusion as component units of the Commonwealth and therefore are not part of these financial statements.

*Availability of Financial Statements*

The separately audited financial statements of the Commonwealth’s component units and funds may be obtained from the various entities, or by contacting the Office of the Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660 for component unit contact information.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The Statement of Net Position and the Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are defined as either governmental or business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING***Government-Wide Financial Statements*

The **Statement of Net Position** presents all of the reporting entity’s non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- **Net investment in capital assets** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- **Restricted net position** results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- **Unrestricted net position** consists of net position which does not meet the definition of the two preceding categories.

Resources from restricted net position are used prior to those from unrestricted net position.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue and offset or supplant the net operating deficit or surplus from governmental or business-type operations.

*Fund Financial Statements*

The fund financial statements present a balance sheet and a statement of revenues, expenditures and changes in fund balances for its major and aggregated non-major funds.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with non-major funds being combined into a single column.

The Commonwealth reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

**Governmental Activities – Government-wide financial statements** are reported using the economic resources management focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

**Governmental Funds – Fund financial statements** account for the general governmental activities of the Commonwealth. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual and are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services are recognized in the year the materials are received, the grants are expended or services are provided. The measurement period for accrual for taxes earned is generally one year for income, corporate and other taxes and within thirty days for sales and use taxes. For federal and other reimbursements, the measurement period for accrual is generally sixty days if the related expenditures being reimbursed occurred prior to year end. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due. Compensated absences, claims and judgments, termination benefits and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources. Amounts incurred but not reported for Medicaid are reported to the extent that services are rendered before June 30th.

**Business-Type Activities – Government-wide financial statements** account for activities for which a fee is charged to external users for goods or services. In these services, debt may be issued backed solely by these fees and charges.

There may be also a legal requirement or a policy decision to recover costs. As such, these funds account for operations similarly to a for-profit business. The Commonwealth's Institutions of Higher Education's operations are reported as systems within the proprietary funds. Proprietary fund types are described in more detail below.

**Proprietary and Fiduciary Funds – Fund financial statements** are presented on the same basis of accounting as the business-type activities in the government-wide financial statements. Post-employment benefits and refunds are recognized when due and payable.

The Commonwealth reports the following fund types:

**Governmental Fund Types:**

**General Fund**, a governmental fund, is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

**Special Revenue Funds** account for specific revenue sources that have been aggregated according to Commonwealth general laws to support specific governmental activities.

**Debt Service Fund** accounts for the accumulation of resources for and the payment of debt.

**Capital Projects Funds** account for the acquisition or construction of major Commonwealth capital facilities financed primarily from bonds and federal reimbursements.

Within the governmental fund types, the Commonwealth has established the following major funds, in addition to the General Fund:

**Lottery Funds** are governmental funds and account for the operations of the State and Arts Lotteries, which primarily finance payments for local aid to cities and towns.

*The Massachusetts School Building Authority* is presented as a governmental fund. This is comprised of the activity of the blended component unit, the Massachusetts School Building Authority, accounting for grants to cities, towns and regional school districts for school construction and renovation projects.

#### **Proprietary Fund Types:**

*Business-Type Activities* account for programs financed in whole or in part by fees charged to external parties for goods and services. Major Proprietary Funds are the Unemployment Compensation Fund, the University of Massachusetts, State Universities and Community Colleges.

The proprietary funds include the following:

*Unemployment Compensation Fund* reports the taxes collected from employers and held by the United States Treasury in the Federal Unemployment Trust Fund, from which funds are drawn for the payment of benefits to the unemployed.

*College and University Information*, is presented here, aggregated by the University's activity, the State Universities' activity and the Community Colleges' activity.

#### **Fiduciary Fund Types:**

*Post-Employment Benefit Trust Funds* report resources that are required to be held in trust for the members and beneficiaries of the Commonwealth's post-employment benefit plans. These funds recognize employer and participant contributions in the period when contributions are due, and the Commonwealth has made a formal commitment to provide the contributions via an appropriation. Further information on the significant accounting policies for post-employment benefit trust funds may be found in Note 9 to the basic financial statements on pages 103 - 113.

*External Investment Trust Funds* account for the portion of pooled cash and pension assets held under the custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

*Private Purpose Funds* account for various gifts and bequests held by the Commonwealth of which only the income is expendable for purposes specified by the donor. The majority of the individual accounts are for perpetual cemetery care endowments on behalf of deceased individuals.

*Agency Funds* account for assets the Commonwealth holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

#### **Fund Balances:**

Governmental fund balances are considered nonspendable, restricted, committed, assigned, and unassigned, based on the relative strength of spending constraints.

*Nonspendable* fund balances are those that cannot be spent because they are either: (a) not in spendable form; or (b) legally or contractually required to be maintained intact, such as balances in the form of inventories, permanent funds, and notes receivable. For the Commonwealth, the only nonspendable balances are notes receivable in the non-major governmental funds.

*Restricted* fund balances are those where constraints on their use are: a) externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments; or b) imposed by constitutional provisions or enabling legislation such that there is a legally enforceable requirement that those resources be used only for the specific purposes stipulated. Legal enforceability means that a government can be compelled by an external party—such as citizens, public interest groups, or the judiciary—to use resources created by enabling legislation only for the stipulated purposes.

*Committed* balances are those that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which in the case of the Commonwealth is the Legislature and Governor. Committed amounts cannot be used for other than the specified purposes unless the Governor and Legislature

remove or change the specified use through legislation. The authorization specifying the purposes for which amounts can be used must have the consent of both the legislative and executive branches of the government prior to the end of the reporting period.

**Assigned** balances are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by: (a) the governing body itself; or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The Massachusetts Legislature has the authority to assign or modify previously assigned fund balance. In distinction to restricted and committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, i.e., the Legislature and Governor, and the action to assign fund balance can occur after the end of the year. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances—constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed. Per GASB 54, assigned balances include those funds remaining at the end of the fiscal year that are reappropriated for the following fiscal year.

**Unassigned** fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes in the General Fund. The General Fund is the only fund that reports a positive unassigned fund balance amount. In addition, in accordance with GASB No. 54, negative balances in other governmental funds are classified as unassigned.

While the Commonwealth has not announced a formal policy governing the priority of spending fund balances, in conformance with GASB 54 requirements, when an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, restricted resources are spent first, followed by committed resources, assigned resources and unassigned resources.

Detail of FY14 ending fund balances is shown below.

**Governmental Fund Balances at June 30, 2014**  
(amounts in thousands)

	Nonspendable Purposes	Restricted Purposes	Committed Purposes	Assigned Purposes	Unassigned Purposes	Totals
<b>General Fund</b>						
General Government.....	\$ -	\$ -	\$ -	\$ -	\$ 1,432,521	\$ 1,432,521
Stabilization Fund.....	-	-	1,248,435	-	-	1,248,435
FY 14 Appropriations Reappropriated in FY15.....	-	-	-	154,358	-	154,358
<b>Subtotals, General Fund.....</b>	<b>-</b>	<b>-</b>	<b>1,248,435</b>	<b>154,358</b>	<b>1,432,521</b>	<b>2,835,314</b>
<b>Lottery Funds</b>						
Lottery Operations.....	-	-	-	2,049	-	2,049
<b>Subtotals, Lottery Funds.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,049</b>	<b>-</b>	<b>2,049</b>
<b>Massachusetts School Building Authority (MSBA)</b>						
Debt Service.....	-	830,576	-	-	-	830,576
Grants to Cities, Towns and Local School Districts.....	-	10,034	-	332,696	-	342,730
<b>Subtotals, MSBA.....</b>	<b>-</b>	<b>840,610</b>	<b>-</b>	<b>332,696</b>	<b>-</b>	<b>1,173,306</b>
<b>Other Governmental Funds</b>						
Restricted by Federal Grantors.....	-	78,852	-	-	-	78,852
Child Support -- Restricted by Federal Grantors.....	-	41,133	-	-	-	41,133
Environmental.....	-	-	20,850	-	(844)	20,006
Public Safety -- Enhanced 911 Services.....	-	-	105,169	-	-	105,169
Public Safety -- Other.....	-	-	3,195	-	-	3,195
Universal Health Care - Distressed Hospital Relief.....	-	-	84,336	-	-	84,336
Universal Health Care - Affordable Care Act Primary Care Payments.....	-	-	51,669	-	-	51,669
Universal Health Care - Health Insurance for the Unemployed.....	-	-	65,425	-	-	65,425
Universal Health Care - Other.....	-	-	51,366	-	-	51,366
Other Health Care.....	-	-	24,068	-	-	24,068
Workforce Training.....	-	-	30,570	-	-	30,570
Convention Centers.....	-	-	126,104	-	-	126,104
General Government Capital Projects Fund.....	-	-	-	-	(556,769)	(556,769)
Highway Capital Projects Fund.....	-	-	-	-	(484,066)	(484,066)
General Government Debt Service.....	-	20,320	-	-	-	20,320
Transportation (GANS*/Commonwealth Transportation Fund).....	-	218,883	75,279	-	-	294,162
Local Aid.....	-	-	-	21,250	(8,325)	12,925
Gaming.....	-	-	23,626	-	-	23,626
Expendable Trusts.....	-	317,757	158,878	-	-	476,635
Other.....	1,116	-	180,935	-	(42,012)	140,039
<b>Subtotals, Other Governmental Funds.....</b>	<b>1,116</b>	<b>676,945</b>	<b>1,001,470</b>	<b>21,250</b>	<b>(1,092,016)</b>	<b>608,765</b>
<b>Totals.....</b>	<b>\$ 1,116</b>	<b>\$ 1,517,555</b>	<b>\$ 2,249,906</b>	<b>\$ 510,353</b>	<b>\$ 340,505</b>	<b>\$ 4,619,434</b>

\*Federal Grant Anticipation Notes

The Commonwealth does not have a formally adopted minimum fund balance policy. However, most governmental funds cannot end a fiscal year in deficit. Those funds that are authorized to end a fiscal year in deficit are discussed in note 8 to the basic financial statements, "Individual Fund Deficits" on page 103.

**Stabilization Fund Arrangements:**

In accordance with Section 2H of Chapter 29 of the Massachusetts General Laws, the Commonwealth maintains a Stabilization ("Rainy Day") Fund. Per Chapter 29, balances in the Stabilization Fund can be expended only when non-routine budget shortfalls occur and upon appropriation by the Legislature and approval by the Governor. Chapter 29 requires that after calculating the Commonwealth's "consolidated net surplus" (the sum of the "undesignated" balances in certain specific state budgeted funds, equal to balances that are not restricted nor reappropriated for the following fiscal year) any remaining surplus be transferred to the Stabilization Fund. In addition, withholding taxes on certain Lottery winnings are required to be transferred to the Stabilization Fund. Starting in FY10, statute requires the Comptroller, after certification by the Commissioner of Revenue, to transfer any capital gains tax revenues in excess of \$1 billion (adjusted annually for economic growth) during a fiscal year to the Stabilization Fund. Starting in FY12, statute requires the Comptroller, after certification by the Commissioner of Revenue and the Attorney General, to transfer to the Stabilization Fund all revenue from individual settlements and judgments that exceed \$10 million. For FY14, this statute was suspended by budgetary legislation enacted during the fiscal year and all settlements and judgments revenue was retained in the General Fund.

Historically, balances in the Stabilization Fund have been used almost exclusively during recessionary periods to offset budget shortfalls after other budgetary measures have been taken. Per Chapter 29, the Commonwealth is required to maintain a balanced budget, and if a revenue shortfall is projected, the Secretary of Administration and Finance is required to reduce state agencies' spending authorizations in an amount equal to any projected shortfall.

The Stabilization Fund ended FY14 with a balance of \$1.248 billion. For the fiscal year ending June 30, 2014, the Stabilization Fund's balance decreased by \$308 million as a result of inflows, including approximately \$45 million in capital gains tax revenue, \$414 million in judgment and settlement receipts (which were transferred to the General Fund) and approximately \$1 million in statutorily mandated deposits of withholding taxes on certain Lottery proceeds, offset by \$776 million in withdrawals during the fiscal year. In accordance with GASB 54 requirements, balances in the Stabilization Fund are classified as committed.

*Fiscal Year-End*

All funds and component units are reported using fiscal years, which end on June 30.

*Program Revenue*

Program revenue is defined by the Commonwealth to be the revenue from fees and assessments collected by departments that are directly applicable to that department's operations.

*Operating and non-operating revenues and expenses*

Revenues and expenses of business-type activities and proprietary funds are classified as operating or non-operating and are subclassified by object. Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as non-operating.

**D. CASH, SHORT-TERM INVESTMENTS AND INVESTMENTS**

The Commonwealth follows the practice of pooling cash and cash equivalents. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. Interest earned on pooled cash is allocated to the General Fund and, when so directed by law, to certain other Governmental Funds.

The Office of the Treasurer and Receiver-General (Treasury) manages the Commonwealth's short-term external mixed investment pool, the Massachusetts Municipal Depository Trust (MMDT). MMDT is comprised of two portfolios, a Cash Portfolio and a Short Term Bond Portfolio. The Cash Portfolio is a money-market-like investment pool; its investments are

carried at amortized cost, which approximates fair value. The Short Term Bond Portfolio investments are carried at fair value.

Investors in MMDT are not allowed to overdraw their shares. For a complete copy of MMDT's separately issued financial statements, please contact the Office of the State Treasurer's Cash Management Department, at (617) 367-9333 or download the statements from the Cash Management section of the Office of the State Treasurer's website at [www.mass.gov/treasury](http://www.mass.gov/treasury). General Law Chapter 29, Section 38 enumerates the Commonwealth's investment policy for non-pension assets.

The post-employment benefit trust funds invest in the Pension Reserves Investment Trust (PRIT) Fund, an external investment pool managed by the Pension Reserves Investment Management (PRIM) Board. The State Employees', Teachers' Public Employee Retirement Systems (PERS) and the State Retiree's Benefit Trust (SRBT) are required to invest in the PRIT Fund and comprise approximately 39.4%, 41.7 % and 0.9 % respectively, of the net position of the PRIT Fund. For a complete copy of PRIT's separately issued financial statements, contact the PRIM Board at 84 State Street, Boston, MA 02109.

The Commonwealth's investments, including those of the PRIT Fund, are comprised of investments in domestic and international equities (marketable securities) and fixed income securities, as well as the following alternative investments: real estate, venture capital and private equity limited partnerships, hedge fund of funds and other alternative investments. Marketable securities are reported at fair value based upon quoted market prices. Investments in fixed income securities, including U.S. government agency obligations, are reported at fair value using independent pricing services. In determining the price, the services may reflect such factors as market prices, yields, maturities, and rating, supplemented by deal quotations. Alternative investments are reported at estimated fair values as determined by management with input from the PRIM Board and its investment managers. Alternative investment securities comprise approximately 34.1 % of the total investments of the PRIT Fund.

The investments of the PRIT are held separately from those of other Commonwealth funds, with the exception of their investments in the MMDT. PRIT funds invested in the MMDT are accounted for separately. Security transactions are recorded on the trade date the securities are purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to PRIT by a Participating or Purchasing System, the fair value of the securities on the transfer date.

Investments of the University of Massachusetts (UMass) are stated at fair value. Annuity contracts represent guaranteed investment contracts and are carried at present value.

#### ***E. RECEIVABLES***

In general, tax revenue is recognized on the government-wide statements when assessed or levied and on the governmental financial statements to the extent that it is both measurable and available, based upon collection experience. If revenue is not received by year-end, receivables are declared. Receivables are stated net of estimated allowances for uncollectible accounts.

Reimbursements due to the Commonwealth for its expenditures on federally-funded-reimbursement and grant programs are reported as "Federal grants and reimbursements" or "Due from federal government" in the statement of net position.

"Other Receivables" represent amounts due to Commonwealth including Lottery revenues and Higher Education receivables from students, amounts due to the University of Massachusetts from related organizations and other items.

Included in receivables for FY14 are amounts due to the Commonwealth under provisions of the Master Settlement Agreement between five tobacco companies and 46 states, including the Commonwealth. Pursuant to provisions of GASB Technical Bulletin No. 2004-1 "Tobacco Settlement Recognition and Financial Reporting Entity Issues", a receivable has been declared for approximately \$127 million, representing 50% of the amounts expected to be received during FY15 and is included as part of other non-major governmental fund activity.

#### ***F. DUE FROM CITIES AND TOWNS***

"Due from Cities and Towns" represents reimbursements due to the Commonwealth for its expenditures on certain programs for the benefit of cities and towns.



The MSBA has entered into various loan agreements with municipalities at a 2.0% interest rate with principal to be paid in equal installments for varying terms. Currently, the longest repayment schedule has a final payment in FY43. This program is designed to assist school districts with unanticipated inflationary construction costs over the district's original amount budgeted for a project. The loans outstanding as of June 30, 2014 were \$114.6 million, of which \$6.7 million is due in FY15. During FY14, the MSBA executed one new loan for \$6.3 million and collected \$6.5 million of scheduled principal payments.

### **G. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements.

#### *Methods used to value capital assets*

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

#### *Capitalization policies*

All land, non-depreciable land improvements and donated historical treasures or works of art are capitalized. Single pieces of equipment, vehicles, computer equipment and software that equal or exceed \$50,000 (\$1,000 for the University of Massachusetts) are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Capital assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets.

#### *Depreciation and useful lives*

Applicable capital assets are depreciated using the straight-line method. Unless unallocable, depreciation expense is charged to the function of the capital asset being depreciated. Estimated useful lives are as follows:

<i>Type of Asset</i>	<b>Estimated Useful Life (in years)</b>
Buildings.....	40
Infrastructure - roads, bridges and tunnels.....	40
Infrastructure - beaches, boardwalks, bikeways, etc.....	20
Infrastructure - dams, water and sewer systems.....	50
Furniture.....	10
Library collections that are not historical treasures.....	15
Equipment, office equipment and life safety equipment.....	10
Computer hardware and software.....	3 to 7
Vehicles.....	5

#### *Road and Bridge Assets*

Effective November 1, 2009 all road and bridge assets formerly owned by the Commonwealth are owned by MassDOT. The debt incurred for the construction of these assets remains a liability of the Commonwealth.

#### *Construction in process*

Construction in process includes all associated cumulative costs of a constructed capital asset. Construction in process is relieved at the point at which an asset is placed in service for its intended use.

## ***H. INTERFUND / INTRAFUND TRANSACTIONS***

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned. Interfund receivables and payables have been eliminated from the Statement of Net Position, except for the residual amounts due between governmental and business-type activities.

## ***I. STATEWIDE COST ALLOCATION PLAN – FRINGE BENEFIT COST RECOVERY***

The Commonwealth has elected not to present its cost allocation and recovery separately on the statement of activities. Certain costs of nine “central service” agencies of the Commonwealth are recovered from the remaining agencies in a federally approved statewide cost allocation plan. These costs that are allocated are based upon benefits received by the user agency that benefit from these services. The Commonwealth also appropriates and pays the fringe benefit costs of its employees and retirees, as well as MassDOT employees and retirees, through the General Fund. These fringe benefits include the costs of employees’ group health insurance, pensions, unemployment compensation and other costs necessary to support the workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on payroll costs, net of credits for direct payments. Since fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds. The employees’ group health insurance and workers’ compensation activity is accounted for in the governmental funds.

## ***J. SCHOOL CONSTRUCTION GRANTS, CONTRACT ASSISTANCE AND OTHER PAYABLES***

Under the former school building assistance program (prior to the creation of the MSBA) the Commonwealth reimbursed 50% to 90% of approved eligible construction and borrowing costs for school construction and renovation to municipalities and regional school districts for 728 previously approved projects noted by MSBA as Prior Grant projects. The MSBA has assumed responsibility for these projects under its enabling statute. The liability for these projects, \$1.0 billion as of June 30, 2014, will be reduced over time through annual payments, savings from project audits made by the MSBA and savings from refundings of debt related to the project. In addition, the MSBA is retiring the liabilities and commitments related to 428 school projects that were maintained on a waiting list for funding under the former program (prior to the creation of the MSBA). The MSBA funds projects on the waiting list via a lump sum, annual payments, or through progress payments. Each funding method has different eligibility requirements and is determined in part by the method of finance used by the local district to fund the capital project. Lump sum payment projects have a liability that is recognized once construction has started. For progress payment projects, a liability is generally recognized once a grantee requests reimbursement from the MSBA. Projects on the waiting list that receive annual payments, because the local district had permanently financed both the local and Commonwealth share, have a liability that is recognized based on the final audit conducted by the MSBA, which liability will be reduced over time through annual payments and any savings from refundings of debt related to the project. Projects not recognized are noted as commitments by the MSBA. The MSBA is committed to paying for its share of projects on the waiting list once communities meet all eligibility requirements for receiving grants. As of June 30, 2014, MSBA had an outstanding liability of \$145 million, and \$23 million of commitments outstanding, for the waiting list projects. New programs have been established by the MSBA under which communities submit monthly requests for reimbursement in order to receive grants. These New Program projects are funded via the progress payment method, and a liability is generally recognized once a grantee requests reimbursement from the MSBA. Outstanding grants for projects that have approved funding agreements with the MSBA, but for which eligible project costs have not been submitted, are considered commitments of the MSBA. As of June 30, 2014, MSBA had an outstanding liability of \$177 million, and \$1.1 billion of commitments outstanding, for the New Program projects. The Commonwealth dedicates a 1% statewide sales tax (drawn from the existing statewide 6.25% sales tax), excluding sales tax revenues on meals and from certain additional statutorily exempted revenues from sales, to the School Modernization and Reconstruction Trust Fund (the “SMART Fund”), in support of these grant programs and for all other operations of the MSBA, including debt service.

The Commonwealth recognizes contract assistance on an annual basis due to the Massachusetts Clean Water Trust (the Trust). This assistance is applied as a subsidy to repayments from the Trust loan borrowers. The expectation is that the assistance will be available for the life of the Trust financing agreement. The assistance is drawn from the Commonwealth on a 20-year repayment stream, even if the loan is for a longer period. If there is a differential between the assistance

received and the amounts needed for loan subsidies, that amount is invested by the Trust in an annuitized fashion to be used beyond year 20. If assistance is not provided by the Commonwealth, the Trust borrower is obligated for any shortfall.

Accounts payable includes amounts due to vendors of the Commonwealth for goods and services delivered before June 30<sup>th</sup> but paid for after year-end, the largest of which is Medicaid for \$1.149 billion.

#### ***K. COMPENSATED ABSENCES***

Compensated absences are recorded as a long-term liability in the statement of net position. For the governmental fund statements, accumulated vacation and sick leave are reported as expenditures and fund liabilities when incurred upon retirement, termination or death. Sick and vacation payments to terminated employees as of June 30, 2014 but paid after the fiscal year end are also reported in the funds.

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rate of pay.

Compensated absences in the governmental funds are liquidated from the same sources that fund the personnel expenses of the employees who are compensated for unused vacation and sick leave pay. In most cases, this is the General Fund, but also includes non-General Fund sources to the extent that personnel expenses are charged to those funding sources.

In the business-type activity and the discretely presented component units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

#### ***L. DEDICATED REVENUES AND PLEDGES***

The Commonwealth has a number of pledges of revenue streams for its own bonds and various other bond issues of other authorities. Commonwealth debt supported by dedicated revenue streams include special obligation bonds for road and bridge construction secured by motor fuels taxes and federal grant anticipation notes (GANS) secured by federal grants for highway construction. Detailed information on pledges for the Commonwealth's own debt is included in sections B and C of note 7, on page 92-93.

Portions of Commonwealth sales taxes are pledged as security for bonds issued by the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA). The MBTA receives sales tax revenues equal to 1% of applicable sales, subject to an annual floor set in statute. In FY14, total dedicated sales tax revenue that was directed to the MBTA was approximately \$799 million, \$72 million more than would have been the case were the dedicated revenue equal to 1% of applicable sales. As a result, in FY14 the MBTA received from the Commonwealth sales tax revenues effectively equal to 1.10% of applicable sales, and is expected to receive approximately this percentage of applicable sales for the foreseeable future. Dedicated revenues to the MBTA increase by the lesser of the annual increase in the Boston consumer price index or prior calendar year annual sales taxes, with a floor of 0% and a ceiling of 3.0%.

The MSBA also receives a pledge of sales tax that, starting in FY11, increased to 1.0% of applicable sales in the Commonwealth but with no annual floor or ceiling. In FY14, approximately \$728 million of the dedicated sales tax revenue stream was directed to the MSBA.

The Commonwealth has also pledged sales tax revenue and rooms tax surcharges from areas contiguous to convention centers and the Worcester DCU Arena and Convention Center to support such centers' operations. As of June 30, 2014, taxes within the Convention Center districts support approximately \$639 million of outstanding principal and approximately \$423 million of interest on debts related to these Convention Centers. Taxes collected in FY14 were approximately \$109 million, while debt service on the bonds was approximately \$37 million.

The Transportation Modernization Act of 2009, as amended, eliminated the pledges of sales tax revenue to MassDOT through the Commonwealth Transportation Fund (CTF). Under additional transportation finance reform effective July 1, 2013, motor vehicle sales tax collections were shifted from the general fund to the CTF while also eliminating the 0.385% pledge of regular and meals sales tax. During FY14, approximately \$501 million in sales tax revenue was transferred to

MassDOT. From the Commonwealth Transportation Fund, \$275 million was dedicated to funding the operations of the MBTA while an additional \$68 million was dedicated to funding the operations of the regional transit authorities. These amounts are transferred through the CTF.

**M. LOTTERY REVENUE AND PRIZES**

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities and principal-only and interest-only treasury strips in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the agency fund and on the statement of net position. Though the annuities are in the Commonwealth's name in the case of a default, they are solely for the benefit of the prizewinner. The Commonwealth retains the risk related to such annuities.

**N. RISK FINANCING**

The Commonwealth self-insures for employees' workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. For employees' workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.

**O. NET POSITON**

The Commonwealth reports net position as restricted where legally segregated for a specific future use by enabling legislation. Otherwise, these balances are considered unrestricted.

Net position has been restricted as follows:

"Restricted for unemployment benefits" – identifies amounts solely for the payment of unemployment compensation under federal labor laws.

"Restricted for retirement of indebtedness" – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to Special Obligation Revenue Bonds authorized under Section 20 of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991. It also includes amounts held for Grant Anticipation Notes authorized by Chapter 11 of the Acts of 1997 and Chapter 121 of the Acts of 1998.

"Restricted for other purposes" – identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments.

"Restricted for nonexpendable purposes" – identifies amounts held as permanent investments for a specific purpose.

As of June 30, 2014, the government-wide statement of net position reports the following as restricted net position (amounts in thousands):

	Governmental Activities	Business-Type Activities	Government Wide Total
Restricted for:			
Unemployment benefits .....	\$ -	\$ 1,366,423	\$ 1,366,423
Retirement of indebtedness .....	1,137,947	-	1,137,947
Restricted for other purposes including:			
Higher education endowment funds .....	-	17,442	17,442
Higher education academic support and programs .....	-	3,377	3,377
Higher education scholarships and fellowships:			
Nonexpendable .....	-	3,176	3,176
Expendable .....	-	5,865	5,865
Other nonexpendable purposes .....	-	4,026	4,026
Capital projects - expendable trusts .....	-	1,744	1,744
Other purposes .....	317,757	188,492	506,249
Total restricted net position .....	\$ 1,455,704	\$ 1,590,545	\$ 3,046,249

The net position of the Pension Trust Funds and the Pension Reserves Investment Trust portion of the External Investment Trust Funds are restricted for post-employment benefits. These restrictions identify resources held in trust for the members and beneficiaries of the Commonwealth's post-employment plans. The Pension Reserves Investment Trust portion of the External Investment Trust Funds also includes pooled cash and pension assets held under the custodianship of the Commonwealth for the benefits of cities, towns and other political subdivisions of the Commonwealth.

#### **P. RECLASSIFICATIONS**

Certain amounts in the separately issued component units' financial statements have been reclassified to conform to the accounting classifications used by the Commonwealth.

#### **Q. ESTIMATES**

The preparation of the Comprehensive Annual Financial Report requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial report.

Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

#### **R. SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS**

The Commonwealth has implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*, for the fiscal year ending June 30, 2014. This statement replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosure for Defined Contribution Plans*, and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan. GASB Statement No. 67 requires plans to calculate a net pension liability (or NPL) to be measured as the total pension liability less the amount of the pension plan's fiduciary net position.

In March, 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities and recognizes as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously reported as assets or liabilities. The Commonwealth implemented this new standard during the fiscal year ended June 30, 2014 resulting in the restatement of the beginning net position of the governmental activities and the following business-type activities: the University of Massachusetts, State Universities and Community Colleges

The table below details the restatement and other prior period adjustments:

	Governmental Activities	Business-type Activities	Discretely Presented Component Units
Net position/(deficit) as of June 30, 2013, as previously reported.....	\$ (25,939,876)	\$ 4,841,123	\$ 28,397,382
Plus:			
Other Restatements .....	-	648	1,208
Less:			
Reclassification of bond issue costs .....	(43,980)	(22,454)	-
Net position/(deficit) as of July 1, 2013, as restated.....	<u>\$ (25,983,856)</u>	<u>\$ 4,819,317</u>	<u>\$ 28,398,590</u>

## 2. DEPOSITS, SHORT-TERM INVESTMENTS AND INVESTMENTS

### Primary Government

The Commonwealth maintains cash in the MMDT Cash Portfolio that is available for use by all funds. Each fund type's net equity in the Cash Portfolio is displayed in the basic financial statements as "cash and cash equivalents".

	Governmental Activities	Business-Type Activities	Government Wide Total	Fiduciary Funds
Cash and cash equivalents.....	\$ 1,192,194	\$ 614,008	\$ 1,806,202	\$ 918,761
Short-term investments .....	1,355,335	280,778	1,636,113	-
Cash with fiscal agent.....	307,371	-	307,371	-
Total.....	<u>\$ 2,854,900</u>	<u>\$ 894,786</u>	<u>\$ 3,749,686</u>	<u>\$ 918,761</u>

### Lottery Annuity Contracts

The Massachusetts State Lottery Commission, a division of the Office of the State Treasurer and Receiver-General, purchases annuity contracts from insurance companies and United States treasury strips to fund the Commonwealth's liability for future installment prize obligations. These annuities and treasury strips represent an obligation of the insurance company and the custodial bank, respectively, to provide a fixed series of payments over a specified period. Only the annuity investments are subject to credit risk. For the annuity contracts, risk is controlled by purchasing these investments only from insurance companies with the top two ratings issued by a national recognized ratings organization. However, due to the nature of these annuity contracts, the credit quality of the insurance company issuer is subject to change. As of June 30, 2014, the amortized cost of annuities is approximately \$137 million. At June 30, 2014, the Commonwealth held these investments with a maturity value of approximately \$1.109 billion and with a carrying value of approximately \$1.233 billion. Approximately 89% of these amounts are held in United States Treasury strips at a custodial bank. No insurance company has an amount of annuities over 4.5% of the overall portfolio.

### MSBA Deposits and Investments

The MSBA is authorized to invest in obligations of the US Treasury, its agencies and instrumentalities, bonds or notes of public agencies or municipalities, bank time deposits, guaranteed investment contracts, money market accounts and repurchase agreements. These investments are recorded at fair value. The MSBA has an investment policy that establishes the minimum credit quality for certain instruments, outlines investment procedures and updates for periodic reporting. The MSBA investment policy does not specifically limit the amount the MSBA may invest in any one issuer.

As of June 30, 2014, the MSBA held the following deposits and investments which are a component of Governmental Activities above (amounts in thousands):

Cash and cash equivalents.....	\$	151,251
Cash and cash equivalents held in pooled cash.....		64,180
Restricted investments.....		842,184
Total.....	\$	<u>1,057,615</u>

#### *Custodial Credit Risk – Pooled Cash*

Custodial credit risk is the risk that in the event of a bank failure, deposits and investments may not be returned to the Commonwealth. Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk.

The Commonwealth requires all bank deposits in excess of insurance coverage by the Federal Deposit Insurance Corporation (FDIC) to be collateralized with a perfected pledge of eligible collateral or a letter of credit. For programs created by the Treasury, such as the Small Business Banking Program, eligible collateral must be pledged in an amount equal to 102% of the amount of the deposits that exceed FDIC insurance. Sufficient collateral to cover total Commonwealth deposits in excess of the FDIC insured amount must be pledged and held in safekeeping by a custodian that is approved by and under the control of the Treasurer and Receiver General.

Membership by a financial institution in the Depositors Insurance Fund (DIF) or the Share Insurance Fund (SIF) will be accepted by the Treasurer and Receiver General's Office as alternative security, provided that the financial institution submits proof of membership in the DIF or the SIF. Membership in the DIF is limited to Massachusetts chartered savings banks while membership in the SIF is limited to Massachusetts cooperative banks.

#### *Custodial Credit Risk – Higher Education*

The Institutions of Higher Education have investment policies that may vary by institution for custodial credit risk. Each institution carries deposits that are fully insured by the FDIC, as well as uninsured deposits. As of June 30, 2014, the bank balances of uninsured deposits totaled approximately \$392 million.

#### *Custodial Credit Risk – MSBA*

The MSBA does not have a formal investment policy for custodial credit risk. The MSBA carries deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) insurance, as well as deposits that are fully collateralized. As of June 30, 2014, all MSBA bank balances were fully protected against loss.

#### *Interest Rate Risk – MMDT*

Interest rate risk is the extent that changes in interest rates of debt investments will adversely affect the fair value of an investment. These investments include certain short-term cash equivalents, various long-term items and restricted assets by maturity in years. The Treasury cash portfolio minimizes the risk of the market value of securities falling due to changes in interest rates by maintaining a dollar-weighted average portfolio maturity of 60 days or less. The Treasury cash portfolio's assets are managed to maintain a dollar-weighted average life to maturity of 120 days or less.

The MMDT Cash Portfolio's dollar-weighted average maturity fluctuated from 63 days on July 1, 2013 to 57 days on June 30, 2014.

Investments in the MMDT Short Term Bond Portfolio are made in investment-grade securities as defined by national statistical rating agencies. The Commonwealth assesses risk for the Short Term Bond Portfolio by using duration. Duration is the weighted maturity of the security's cash flows, where the present values of the cash flows serve as weights.

For the MMDT Short Term Bond Portfolio, the duration fluctuated from 2.18 to 2.52 years. At June 30, 2014, investments in the MMDT Short Term Bond Portfolio had a total net position of \$441 million with investment maturities ranging from less than one year to more than ten years. At June 30, 2014, the Short Term Bond Portfolio's effective maturity schedule was as follows:

Securities with an Effective Maturity of	Percentage of Total Net Position
Less than one year.....	17.10%
One to five years.....	78.50%
Six to ten years.....	2.00%
Greater than ten years.....	0.20%
Total* .....	97.80%

\*The remaining 2.2% consists of cash equivalents and other assets.

#### *Interest Rate Risk – Higher Education*

As of June 30, 2014, the Institutions of Higher Education had debt investments stated at fair value of approximately \$805 million and had investment maturities ranging from less than one year to more than ten years, with approximately 50.1% of the investment's fair values maturing in less than 1 year, approximately 29.8% from one to five years, approximately 10.2% from six to ten years, and approximately 9.9% more than ten years.

#### *Interest Rate Risk - MSBA*

The MSBA's investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from interest rates. As of June 30, 2014, the MSBA had approximately \$226 million invested in a collateralized guaranteed investment contract and approximately \$407 million invested in U.S. Treasury Bonds and Municipal Bonds. These investments are included in restricted investments on the balance sheet. The guaranteed investment contract matures on August 15, 2030 while the U. S. Treasury Bonds and Municipal Bonds mature from 2019 to 2043. These investments represent approximately 76% of the MSBA's total investments.

#### *Interest Rate Risk – Agency Funds*

The agency funds hold certain debt investments in trust as collateral for regulatory purposes. As of June 30, 2014, these investments had a fair value of approximately \$590 million with investment maturities ranging from less than one year to more than ten years. Of the total fair value, approximately 27.9% has maturities of less than one year, 43.8% from one to five years, 14.2% from six to ten years and 14.1% greater than ten years.

#### *Credit Risk – MMDT*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth, exclusive of Pension Trust Funds, minimizes concentration of credit risk, the risk attributed to the magnitude of the investment in a single issuer. The Commonwealth's investment policy prohibits the Treasury from investing more than 5% of the total investment portfolio in any single financial institution or issuer, excluding various public entity securities and repurchase agreements. There are no restrictions on the amount that can be invested in public entity securities and the portfolio may be invested in U.S. Treasury and other Government Sponsored Enterprises (GSE's) obligations and repurchase agreements.

The Treasury cash portfolio is invested only in First Tier and Second Tier Securities as defined by the Securities and Exchange Commission's Rule 2A-7 of the [Investment Company Act of 1940](#). The Treasury does not have any additional policies regarding credit ratings of investments. At June 30, 2014, the Cash Portfolio's securities were rated as follows: First tier 96.7% and Second Tier 3.3%.



At June 30, 2014, the Short Term Bond Portfolio's follows:

Portfolio Composition	Percentage of Total Net Position
AAA.....	61.40%
AA.....	6.90%
A.....	17.40%
BBB.....	12.10%
Total* .....	97.80%

\* The remaining 2.2% consists of cash equivalents and other assets.

#### *Credit Risk – Higher Education*

For the Institutions of Higher Education presented in the Business-Type Activities, fair values of debt investments were approximately \$473 million at AAA, approximately \$180 million from AA+ to A- and approximately \$152 million either unrated, BBB+ or less.

#### *Credit Risk – MSBA*

The MSBA's investment policy generally limits investments in fixed income products with institutions that have an investment grade rating as determined by one of the nationally recognized rating agencies. The MSBA's policy requires issuers of investment contracts to be rated AA or above by at least two of the nationally recognized rating agencies or A with pledged collateral equal to 102% of the principal balance. As of June 30, 2014, the guaranteed investment contracts were not rated; however, the issuer was rated AA by Standard & Poor's and A2 by Moody's and the guaranteed investment contracts were collateralized.

As of June 30, 2014, the MSBA's investments in municipal bonds were rated AA+ or above.

#### *Credit Risk – Agency Funds*

The agency funds debt investments with a fair value of \$590 million, of which approximately \$472 million were in U.S Government securities. The remaining \$118 million were unrated as of June 30, 2014.

#### *Interest Rate Risk – PRIT Funds*

As pension trust funds have a longer investment horizon than many of the Commonwealth's other investments, the PRIM Board manages PRIT's exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its fixed income investment managers. The guidelines with each individual manager require that the effective duration of the domestic fixed income investment portfolio be within a specified percentage or number of years of the effective duration band of the appropriate benchmark index. For emerging markets fixed income investments, the portfolio must have a duration with a band ranging from three to eight years.

Effective duration is a measure of a fixed income investment's exposure to fair value changes arising from changes in interest rates. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes, including callable options, prepayments and other factors.

The PRIM Board compares the effective duration of a manager's portfolio to the Barclays Capital Aggregate Index for domestic core fixed income securities and the Merrill Lynch High Yield Master II Index for domestic high yield fixed income securities. The PRIT Fund had fixed income and short-term investments totaling approximately \$16.095 billion at fair value with an effective weighted average duration range from 1.33 to 21.81 years at June 30, 2014.

*Credit Risk – PRIT Funds*

The PRIM Board establishes credit investment guidelines with each of its fixed income securities investment managers in establishing a diversified portfolio. These guidelines vary depending on the manager's strategy and the role of its portfolio to the overall diversification of the PRIT fund. The guidelines for the PRIT Fund's core fixed income portfolio establish the minimum credit rating for any security in the portfolio and the overall weighted average credit rating of the portfolio. The guidelines for the PRIT Fund's high yield, fixed income portfolio establish a market value range of securities to be held with a specific minimum credit rating and the overall weighted average credit rating of the portfolio.

Credit risk for derivative instruments held by PRIT results from counterparty risk. PRIT is exposed to credit risk resulting from counterparties being unable to meet their obligations under the terms of the derivative agreements. The weighted average quality rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States Government and other nonrated investments was BBB+ at June 30, 2014.

Credit ratings associated with the Commonwealth's investment in the PRIT Fund ranged from AAA to A- investments with a fair value of approximately \$3.205 billion, BBB+ to B- investments with a fair value of approximately \$2.555 billion, \$245 million rated CCC+ to D, \$5.407 billion are unrated and the remaining \$4.683 billion are investments that are explicitly backed by the U. S. Government.

*Foreign Currency Risk – PRIT Funds*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. The Treasury does not have a policy regarding foreign currency risk for the Pension Trust. The PRIM Board manages PRIT's exposure to foreign currencies by hedging a percentage of PRIT's non-U.S. dollar denominated investments through forward foreign currency contracts. The PRIT Fund's investments in foreign currency denominated investments as of June 30, 2014 were approximately \$191 million in cash and investments, \$13.154 billion in equities, \$2.297 billion in fixed income investments, \$1.455 billion in private equity investments and \$172 million in timber investments. An additional \$2.867 billion is invested in international investments denominated in U. S. dollars.

*Concentration of Credit Risk – PRIT*

The PRIM Board manages PRIT's exposure to concentration of credit risk by establishing guidelines with each investment manager that limit the percent of investment in any single issue or issuer.

MMDT and PRIT have no investments at fair value that exceed 5% of PRIT's net position held in trust for pool participants as of June 30, 2014.

**A. DERIVATIVE INSTRUMENTS**

PRIT may invest in derivative transactions. In accordance with GASB Statement No 53, *Accounting and Financial Reporting for Derivative Instruments*, PRIT's derivatives are accounted for as investment derivatives and are reported at fair value.

*Forward Currency Contracts*

PRIT enters into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contracts will fluctuate with changes in currency exchange rates. Risks may arise from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

The contracts are marked-to-market daily and the change in market value is recorded as an unrealized gain or loss by PRIT. When a contract is closed, PRIT records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

As of June 30, 2014, PRIT had open foreign exchange contracts with combined net unrealized losses of approximately \$8 million with various delivery dates.

Further information on derivative instruments can be found in the notes to PRIT's basic financial statements.

#### *Futures Contracts*

PRIT may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owns or expects to purchase.

Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to a percentage of the contract amount.

The potential risk is that the change in the value of futures contracts may not correspond to the change in the value of underlying instruments, which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that PRIT may not be able to close out its future positions due to a non-liquid secondary market. Risks may also arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

PRIT may also invest in financial futures contracts for non-hedging purposes.

PRIT held contracts outstanding at June 30, 2014 with various expirations from FY15 to FY17. These contracts are for cash and cash equivalents, fixed income, equities and commodities. A portion of the contracts were short contracts. The aggregated notional exposure amount as of June 30, 2014 was approximately \$3.212 billion with a fair value of \$3.236 billion, yielding an unrealized net gain of approximately \$23 million.

Payments are made or received by PRIT each day, depending on the daily fluctuations in the value of the underlying security and are recorded as unrealized gains or losses. When the contracts are closed, the PRIT Fund recognizes a realized gain or loss.

#### *Swaps – PRIT*

PRIT has entered into swap agreements to gain exposure to certain markets and actively hedge other exposures to market and credit risk. The swap contracts are reported at fair value, which represents their estimated liquidation values (costs). PRIT either receives cash from the swap counterparties or pays the swap counterparties monthly depending on whether the fixed-rate interest is lower or higher than the variable-rate interest. Changes in fair value are included as part of investment income.

As of June 30, 2014, PRIT had contracts in effect with an aggregated notional amount of approximately \$1.927 billion to various investment banks that had maturity dates from FY15 to FY46. The contracts have an aggregate fair value gain of approximately \$11 million. PRIT values these contracts using standard methods and techniques including the discounted cash flow analysis and option pricing models.

PRIT's counterparty exposure was with various major investment companies with ratings ranging from AA- to A- and various other banks with other ratings. Open swap contracts as of June 30, 2014 were as follows (amounts in thousands):

Counterparty	Credit Ratings	Interest Rate Swaps		Credit Default Swaps		Inflation Swaps	
		Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value
Barclays Bank PLC.....	A	\$ 23,150	\$ 291	\$ 12,500	\$ (64)	\$ 116,010	\$ 92
CME Group Inc.....	AA-	784,699	4,955	-	-	-	-
Citibank NA.....	A	181,717	107	29,361	14	-	-
Deutsche Bank AG.....	A	-	-	35,700	255	-	-
Intercontinental Exchange Inc.....	A-	-	-	78,294	2,653	-	-
JPMorgan Chase Bank NA.....	A+	22,617	(19)	9,900	45	-	-
UBS AG.....	A	4,582	42	27,346	152	-	-
U.S. Bank National Association.....	AA-	500,000	2,603	-	-	-	-
All others.....	Various	4,741	99	95,900	(142)	-	-
Totals.....		\$ 1,521,506	\$ 8,078	\$ 289,001	\$ 2,913	\$ 116,010	\$ 92

**B. DISCRETELY PRESENTED COMPONENT UNIT INVESTMENTS**

Component units invest in derivative transactions. Detailed information on those transactions is found in the notes to the basic financial statements for those component units.

**3. RECEIVABLES**

Taxes, federal reimbursements, loans and other receivables are presented in the statement of net position, exclusive of amounts due from cities and towns and component units as follows (amounts in thousands):

<i>Primary Government</i>	Taxes Receivable	Federal Grants and Reimbursements	Loans	Other Receivables	Total
<u>Governmental activities:</u>					
Gross receivables .....	\$ 4,885,913	\$ 2,137,327	\$ 116,608	\$ 1,822,052	\$ 8,961,900
Less: allowance for uncollectibles .....	(1,294,151)	(117,713)	-	(1,327,791)	(2,739,655)
Receivables, net of allowance for uncollectibles ..	3,591,762	2,019,614	116,608	494,261	6,222,245
Less: current portion .....	(3,079,790)	(1,957,550)	(8,710)	(386,096)	(5,432,146)
Noncurrent receivables .....	\$ 511,972	\$ 62,064	\$ 107,898	\$ 108,165	\$ 790,099
<u>Business-Type activities:</u>					
Gross receivables .....	\$ -	\$ 88,366	\$ 61,720	\$ 864,140	\$ 1,014,226
Less: allowance for uncollectibles .....	-	(1,260)	(1,360)	(192,652)	(195,272)
Receivables, net of allowance for uncollectibles ..	-	87,106	60,360	671,488	818,954
Less: current portion .....	-	(87,106)	(48,092)	(627,381)	(762,579)
Noncurrent receivables .....	\$ -	\$ -	\$ 12,268	\$ 44,107	\$ 56,375

**4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS BETWEEN FUNDS**

The purposes of interfund receivables, payables and transfers between funds vary by legislative authority. Transfers include the following: intergovernmental services, fringe benefit cost assessments, the year-end Stabilization Fund transfer, certain license fees collected by the registry of motor vehicles that fund various highway project initiatives, fund closure transfers, transfers from the Stabilization Fund to fund current operations and various other transfers for operations, largely for Institutions of Higher Education.

Activity between funds reflected as due to/from primary government in the various statements is summarized as follows (amounts in thousands):

	General	Lotteries	Other Governmental Funds	Total
<b>Governmental funds:</b>				
<u>Transfers in:</u>				
Debt service.....	\$ -	\$ -	\$ 2,374,950	\$ 2,374,950
Transfers in.....	1,523,264	-	1,803,228	3,326,492
Subtotal.....	1,523,264	-	4,178,178	5,701,442
<u>Transfers out:</u>				
Appropriations.....	(1,058,662)	-	(21,587)	(1,080,249)
Transfer of bond proceeds.....	-	-	(215,690)	(215,690)
Debt service.....	(1,060,211)	-	(1,314,739)	(2,374,950)
Transfers out.....	(1,104,450)	(1,069,958)	(1,061,286)	(3,235,694)
Subtotal.....	(3,223,323)	(1,069,958)	(2,613,303)	(6,906,583)
<b>Total governmental funds.....</b>	<b>(1,700,059)</b>	<b>(1,069,958)</b>	<b>1,564,875</b>	<b>(1,205,141)</b>
<b>Proprietary funds:</b>	University of Massachusetts	State Universities	Community Colleges	Total
<u>Transfers in:</u>				
Transfers in from the General Fund and other governmental funds.....	\$ 676,365	\$ 289,175	\$ 330,399	\$ 1,295,939
<u>Transfers out:</u>				
Transfers out to the General Fund.....	(56,262)	(17,524)	(17,011)	(90,798)
<b>Total proprietary funds.....</b>	<b>\$ 620,103</b>	<b>\$ 271,651</b>	<b>\$ 313,387</b>	<b>1,205,141</b>
<b>Net transfers in / (out) between funds..</b>				<b>\$ -</b>

Due to/from component units on the Statement of Net Position reflects a timing difference for a payment of approximately \$3 million at year end.

Remaining receivables and payables between funds as of June 30, 2014 largely occur due to the timing of accruals and the funding of escrows. The University also reported unremitted benefits costs as of June 30, 2014. The amount due to the General Fund largely represents deficits funded by the General Fund. The following is a summary of receivables and payables between funds remaining as of June 30, 2014 (amounts in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Governmental Funds:</b>		
General	Nonmajor Governmental Funds.....	\$ 533,226
Non-major Governmental Funds	Nonmajor Governmental Funds.....	80,348
<b>Total Governmental Funds.....</b>		<b>\$ 613,574</b>

## 5. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2014 were as follows (amounts in thousands):

<i>Primary Government Governmental Activities</i>	July 1, 2013 Beginning Balance*	Increases	Decreases and Reclassifications	June 30, 2014 Ending Balance
Capital assets not being depreciated:				
Land.....	\$ 822,076	\$ 21,658	\$ (1,021)	\$ 842,713
Construction in process.....	649,712	327,211	(110,687)	866,236
Total capital assets not being depreciated.....	1,471,788	348,869	(111,708)	1,708,949
Capital assets being depreciated:				
Buildings.....	5,410,250	45,994	(4,745)	5,451,499
Machinery and equipment.....	1,028,669	89,468	(14,744)	1,103,393
Infrastructure non - central artery/tunnel project.....	333,004	35,750	(3,500)	365,254
Total capital assets being depreciated.....	6,771,923	171,212	(22,989)	6,920,146
Less, accumulated depreciation:				
Buildings.....	(2,863,368)	(108,133)	3,619	(2,967,882)
Machinery and equipment.....	(787,587)	(79,238)	9,398	(857,427)
Infrastructure non - central artery/tunnel project.....	(226,685)	(7,921)	3,441	(231,165)
Total accumulated depreciation.....	(3,877,640)	(195,292)	16,458	(4,056,474)
Total capital assets being depreciated, net.....	2,894,283	(24,080)	(6,531)	2,863,672
Governmental activity capital assets, net.....	4,366,071	324,789	(118,239)	4,572,621
<i>Business - Type Activities</i>				
Capital assets not being depreciated:				
Land.....	107,847	7,201	(518)	114,530
Construction in process.....	1,317,594	797,531	(975,289)	1,139,836
Historical treasures.....	1,101	61	-	1,162
Total capital assets not being depreciated.....	1,426,542	804,793	(975,807)	1,255,528
Capital assets being depreciated:				
Buildings.....	6,610,770	962,622	(10,474)	7,562,918
Machinery and equipment.....	990,186	57,605	(22,351)	1,025,440
Library collections, not including historical treasures.....	113,739	551	(9,590)	104,700
Total capital assets being depreciated.....	7,714,695	1,020,778	(42,415)	8,693,058
Less, accumulated depreciation:				
Buildings.....	(3,211,884)	(243,122)	17,131	(3,437,875)
Machinery and equipment.....	(249,511)	(60,087)	12,393	(297,205)
Library collections, not including historical treasures.....	(17,155)	(618)	416	(17,357)
Total accumulated depreciation.....	(3,478,550)	(303,827)	29,940	(3,752,437)
Total capital assets being depreciated, net.....	4,236,145	716,951	(12,475)	4,940,621
Business - type activity capital assets, net.....	5,662,687	1,521,744	(988,282)	6,196,149
<b>Total Primary Government capital assets, net.....</b>	<b>\$ 10,028,758</b>	<b>\$ 1,846,533</b>	<b>\$ (1,106,521)</b>	<b>\$ 10,768,770</b>

\*As restated and are more fully described in footnote #1

Depreciation expense was charged to the various functions of governmental and business-type activities as follows (amounts in thousands):

Function	Amount
General government.....	\$ 50,315
Judiciary.....	32,796
Health and human services.....	43,345
Early elementary and secondary education.....	820
Public safety and homeland security.....	57,631
Housing and economic development.....	48
Labor and workforce development.....	10,337
Total depreciation, governmental activities.....	<u>\$ 195,292</u>
University of Massachusetts.....	\$ 200,256
State universities.....	73,188
Community colleges.....	30,383
Total depreciation, business-type activities.....	<u>\$ 303,827</u>

## 6. SHORT-TERM FINANCING AND CREDIT AGREEMENTS

Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. Short-term borrowing may be issued as fixed rate notes, floating rate notes or through a commercial paper program supported by bank liquidity facilities maintained by the Commonwealth. Per the State Constitution, revenue anticipation notes (RANs) issued for cash flow purposes are required to be paid within the same fiscal year. Temporary financings for capital needs, such as bond anticipation notes may be outstanding for up to five years, per statute.

### A. GENERAL FUND

The balance of revenue anticipation notes (RANs) and commercial paper outstanding may fluctuate during a fiscal year, but all short-term borrowing for cash flow purposes must be reduced to zero by June 30. In terms of short-term borrowing for cash flow purposes, the Commonwealth borrowed \$800 million by selling RANs in September 2013. All of the \$800 million in RANs were retired in April, May and June of 2014.

On June 30, 2014, the Commonwealth issued \$200 million in commercial paper bond anticipation notes (BANs) in anticipation of the issuance of bonds. These notes were redeemed subsequent to year end with a portion of the long-term General Obligation Bonds, Consolidated Loan of 2014, Series C, dated July 11, 2014. The bonds mature annually starting in FY2022 through FY2032 and carry interest rates ranging from 3.0% to 5.0%. The BANs meet long-term financing criteria and, therefore, are reported as long-term debt rather than as fund liability.

The following schedule details short-term financing for all funds for the fiscal year (amounts in thousands):

	Beginning Balance July 1, 2013	Issued / Drawn	Redeemed / Repaid	Ending Balance June 30, 2014
General Fund:				
Revenue anticipation notes.....	\$ -	\$ 800,000	\$ (800,000)	\$ -
Capital Projects Funds:				
Commercial paper - Bond anticipation notes.....	-	200,000	(200,000)	-
Total primary government.....	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ (1,000,000)</u>	<u>\$ -</u>

**B. CREDIT FACILITIES**

During FY14, the Commonwealth maintained credit facilities to provide liquidity support for commercial paper notes totaling \$400 million. The Commonwealth started FY14 with a total of two credit facilities to provide such liquidity support, each in the amount of \$200 million. These facilities expire in periods at various times in FY14 and FY15. In addition, to credit facilities for commercial paper, the Commonwealth maintained standby bond purchase agreements for Variable Rate (VR) Demand Bonds sold from FY97 through FY06. These VR bonds require external liquidity support because bond holders have the right to sell the bonds back to the Commonwealth at par at any time. As of June 30, 2014, these agreements totaled \$759 million.

**7. LONG-TERM OBLIGATIONS**

Section 1 of Article 62 of the Massachusetts Constitution empowers the State Legislature to borrow money on the credit of the Commonwealth for various public purposes. Under the state Constitution, the Commonwealth may pledge its credit to borrow money only by a vote of two-thirds of each house of the Legislature. Borrowed funds may be used for defense of the state or of the United States, and in anticipation of receipts from taxes or other sources, “any such loan to be paid out of the revenue of the year in which the loan is made”. The Legislature may not in any manner allow the Commonwealth’s credit to be given or loaned to or in aid of any individual, or of any private association, or of any corporation, which is privately owned or managed. The Constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan.

Statutorily, the authority to borrow is delegated to the Massachusetts State Treasurer & Receiver General pursuant to Chapter 29 of the Massachusetts General Laws. Section 49 of Chapter 29 of the Massachusetts General Laws is the primary statute governing the issuance of Commonwealth debt and contains a number of provisions spelling out the process for the issuance of bonds.

The issuance of bonds to fund the Commonwealth’s capital needs must be authorized by the Legislature. Pursuant to legislative authorizations to borrow, the Governor determines the amount and timing of any authorized borrowing to fund capital investments. At the request of the Governor, the State Treasurer & Receiver General borrows by issuing bonds to the public. The Governor approves the use of the bond proceeds by agencies to pay for authorized and budgeted capital projects.

Massachusetts General Law provides for the allocation of bond proceeds to bond authorizations and capital spending in arrears (as needed), as expenditures are made, or at the time of issuance of the bonds. In general, bond proceeds are primarily allocated to capital spending that has already occurred. When allocating in arrears, the allocation of segregated bond proceeds is a reimbursement to the General Fund.

Bond proceeds that are awaiting allocation are typically invested by the State Treasurer in the Commonwealth’s primary investment vehicle, the Massachusetts Municipal Depository Trust (MMDT), which is structured similarly to an SEC – registered money market fund (for more information please see the notes on the Commonwealth’s short-term investments). Bond proceeds are segregated from other funds until they are allocated to capital expenditures, a process that requires review by the Commonwealth’s bond counsel.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect hereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement. The Commonwealth cannot file for bankruptcy under the United States Bankruptcy code.

As of June 30, 2014, the Commonwealth had issued two types of long-term debt obligations: general obligation bonds and special obligation bonds. General obligation bonds, which account for the large majority of outstanding Commonwealth bonds, are backed by the full faith and credit of the Commonwealth. Special obligation bonds, however, are bonds secured by all or a portion of a specific revenue source that are pledged to bondholders and are not general obligations of the Commonwealth. For these types of securities, bondholders rely on pledged revenue only for repayment of principal and interest.



The following is a summary of the Commonwealth's outstanding debt, exclusive of capital leases, (amounts in thousands):

<u>Type of Bond</u>	<u>Amount Outstanding</u>
General obligation bonds, net proceeds.....	\$ 20,149,098
Special obligation bonds (including GANs), net proceeds.....	2,941,336
Outstanding Commonwealth bonds, net proceeds.....	23,090,434
MSBA bonds, net proceeds.....	6,143,246
<b>Total governmental activities, net proceeds.....</b>	<b>29,233,680</b>
Less:	
Unamortized premiums on general obligation bonds.....	(552,436)
Unamortized premiums on special obligation bonds.....	(118,146)
Unamortized premiums on MSBA bonds.....	(510,776)
<b>Total governmental activities, principal.....</b>	<b>\$ 28,052,322</b>

The general obligation (GO) bonds listed in the table above include outstanding tax-exempt bonds, taxable bonds including Build America Bonds, College Opportunity Bonds, and debt assumed from former counties. The special obligation (SO) bonds listed above include outstanding tax-exempt and taxable bonds (including Build America Bonds and Recovery Zone Economic Development Bonds) secured by indentures that legally define the specific revenues pledged to bondholders, as defined in the trust agreement. This includes outstanding bonds or notes secured by Federal Highway funds to be received by the Commonwealth, certain portions of the Commonwealth's motor fuel excise taxes and Registry of Motor Vehicle fees and dedicated taxes and fees levied in certain geographic areas of the state to support the Commonwealth's convention center facilities. As of June 30, 2014, there were five different special obligation bond programs with bonds outstanding. It should be noted that two of the five bond programs have closed liens, meaning that no additional new-money bonds will be issued under those specific special obligation bond indentures.

The following is a table of GO bonds principal outstanding as of June 30, 2014, (amounts in thousands):

<u>General Obligation Bonds</u>	<u>Principal Outstanding</u>	<u>Percent of Total GO</u>
Fixed rate bonds.....	\$ 16,004,332	81.7%
Variable rate bonds.....	3,592,330	18.3%
Total.....	<u>\$ 19,596,662</u>	<u>100.0%</u>

The following is a table of the different types of outstanding variable rate GO bonds, (amounts in thousands):

<u>Variable Rate GO Bonds</u>	<u>Principal Outstanding</u>	<u>Percent of Total GO</u>
Direct purchase bonds.....	\$ 443,545	2.3%
Variable rate demand bonds.....	759,265	3.9%
Auction rate securities.....	401,500	2.0%
CPI-index bonds.....	145,765	0.7%
LIBOR index bonds.....	845,795	4.3%
SIFMA index bonds.....	996,460	5.1%
Total.....	<u>\$ 3,592,330</u>	

The following is a table of hedged and unhedged variable rate GO bonds, (amounts in thousands):

	<b>Principal Outstanding</b>	<b>Percent of Total Variable Rate GO Bonds</b>
Hedged variable rate GO bonds.....	\$ 2,820,455	78.5%
Unhedged variable rate GO bonds..	771,875	21.5%
Total variable rate GO bonds .....	<u>\$ 3,592,330</u>	<u>100.0%</u>

The following is a table of SO bond principal, by rate structure, outstanding as of June 30, 2014, (amounts in thousands):

<b>Special Obligation Bonds</b>	<b>Principal Outstanding</b>	<b>Percent of Total SO</b>
Fixed rate bonds .....	\$ 2,640,110	93.5%
Variable rate bonds .....	183,080	6.5%
Total.....	<u>\$ 2,823,190</u>	<u>100.0%</u>

The following is a table of the different types of outstanding SO bonds (amounts in thousands):

<b>Special Obligation Bonds</b>	<b>Amount Outstanding</b>
Special obligation dedicated tax revenue bonds, net proceeds:	
Fixed rate convention center bonds.....	\$ 557,125
CPI variable rate convention center bonds.....	86,590
Total convention center bonds, net proceeds.....	643,715
Special obligation revenue bonds, net proceeds:	
Fixed rate gas tax bonds.....	156,234
CPI variable rate gas tax bonds.....	96,490
Total gas tax bonds, net proceeds.....	252,724
Special obligation revenue bonds, net proceeds:	
Accelerated bridge program.....	1,466,857
Special obligation federal highway grant anticipation notes and accelerated bridge program.....	578,040
Total special obligation bonds, net proceeds.....	2,941,336
Less: unamortized premiums.....	(118,146)
Outstanding special obligation principal.....	<u>\$ 2,823,190</u>

#### **A. GENERAL OBLIGATION BONDS**

General obligation bonds are authorized and issued primarily to provide funds for the Commonwealth's five-year capital improvement program (CIP), including capital infrastructure projects throughout the state as well as Commonwealth-supported local government capital improvements. The five-year plan is developed by the Executive Office for Administration and Finance (A&F) and updated annually. The CIP is primarily funded through the issuance of bonds that are sold by the State Treasurer and Receiver General. The Commonwealth borrows from the capital markets by selling GO bonds and notes pursuant to Chapter 29 of the Massachusetts General Laws. GO bonds are backed by the full faith and credit of the Commonwealth and are paid mainly from the Governmental Funds, to which debt service principal and interest payments are appropriated in the state's operating budget.

In addition to GO bonds issued to fund the state's capital needs, certain bonds are approved by the Legislature to be issued for specific programs. These bonds, known as College Opportunity Bonds, are issued pursuant to statute directly to the Massachusetts Educational Financing Authority for its pre-paid tuition program called the "U.Plan". As of June 30, 2014, the Commonwealth had approximately \$142 million in "U. Plan" bonds (at accreted value) outstanding. Pursuant to statute, all of the outstanding bonds are variable rate bonds. Interest on the bonds is based on the percentage change in the consumer price index plus 2.0% together with current interest at the rate of 0.5%.

In terms of bond structure, the large majority of GO bonds have been sold as fixed rate obligations. As of June 30, 2014, approximately 81.7% of the Commonwealth's outstanding GO debt is in the form of fixed-rate bonds. The remaining 18.3% of outstanding GO debt is in the form of variable rate bonds – bonds whose rate of interest fluctuate based on market or market index changes. The outstanding GO variable rate debt consists of several different variable rate structures. For example, most of the Commonwealth's outstanding variable rate debt is in the form of variable rate demand bonds or "VRDBs", which are long-term bonds whose interest rates re-set daily or weekly through an active remarketing process. Because these bonds provide bondholders with a "put" or tender feature enabling the bonds to be sold back to the Commonwealth at par at any time, they are supported by standby liquidity facilities provided by third-party commercial banks which require the applicable bank to purchase any bonds that are tendered by investors and not successfully remarketed. As of June 30, 2014, the Commonwealth had approximately \$759 million in outstanding VRDBs. This accounts for approximately 3.9% of total GO debt and approximately 21.1% of total GO variable-rate debt. All of these bonds are uninsured. As of June 30, 2014, none of the Commonwealth's outstanding VRDBs have been subject to failed remarketing and "put" back to the Commonwealth; consequently, there have not been any draws on any of the outstanding bank liquidity facilities.

The Commonwealth has also issued GO variable-rate debt in the form of auction-rate securities. Like VRDBs, these are long-term bonds whose interest rates are re-set at pre-determined, short-term intervals. Unlike VRDBs, these bonds do not provide bondholders with a "put" feature and therefore do not require a supporting credit facility from a commercial bank. The Commonwealth's outstanding auction-rate securities have long-term nominal maturities of over 20 years with interest rates re-set every seven days. A periodic "Dutch auction" process is designed to provide a mechanism of liquidity to bondholders, with bonds re-priced and traded in auctions managed by broker-dealers. Beginning in February 2008, however, and continuing through FY14, all of the Commonwealth's outstanding auction rate securities experienced auction failure on the days interest rates were to re-set, meaning there were insufficient bids from new investors to purchase the securities being offered for sale by existing bondholders. Upon auction failure, the interest rate paid to existing bondholders is the failure rate as specified in the bond documents. For the series of Commonwealth bonds whose auctions have experienced failed auctions (approximately \$401.5 million in total outstanding debt obligations, including Commonwealth of Massachusetts GO Bonds, Series 2000D, 2000E, 2000F, and 2000G), the failure rate is based on a multiple of the 7-day non-financial commercial paper rate as published by the Federal Reserve, with a maximum failure rate of 12%. The failed auctions have resulted in actual interest costs to the Commonwealth that were consistently below budgeted debt service levels of 5%.

A portion of the Commonwealth's outstanding bonds have been directly purchased by banks (or "direct purchase bonds"). These variable rate, direct purchase bonds bear interest at an index rate and are payable on the first business day of each month until maturity. As of June 30, 2014, the Commonwealth had \$444 million direct purchase bonds outstanding. This includes \$200 million of the Commonwealth's Consolidated Loan of 2006 (Variable Rate Demand Bonds), Series B. Those bonds were tendered by the Commonwealth in FY2013, converted to direct purchase bonds from variable rate demand bonds, and purchased by JP Morgan Chase Bank and TD Bank, NA. The final portion of outstanding direct purchase bonds were purchased from the Commonwealth by Royal Bank of Canada in FY2012. All of the bonds are subject to bondholder agreements.

The following table details the general obligation direct purchase bonds (amounts in thousands):

Series	Par Outstanding	Final Maturity	Reset Mode/ Payment Frequency	Direct Purchase Bank	Direct Purchase Agreement Date	Direct Purchase Expiration Date
2001 Series B Refunding Bonds..	\$ 243,545	1/1/2021	1 Month LIBOR/ Monthly Pay	Royal Bank of Canada	8/1/2014	8/1/2017
2006 Series B, Subseries B-1.....	100,000	3/1/2026	1 Month LIBOR/ Monthly Pay	JP Morgan Chase Bank	5/17/2013	5/31/2016
2006 Series B, Subseries B-2.....	100,000	3/1/2026	1 Month LIBOR/ Monthly Pay	TD Bank	5/17/2013	5/31/2016
Total.....	<u>\$ 443,545</u>					

The remaining outstanding GO variable-rate debt pays interest to bondholders based on certain indices. For example, as of June 30, 2014, the Commonwealth had approximately \$146 million of bonds that pay interest based on the consumer price index (CPI); \$846 million of bonds that pay interest based on the three-month London Interbank Offered Rate (LIBOR); and \$996 billion of bonds that pay interest based on the Securities Industry and Financial Markets Association (SIFMA) Index. These bonds make up approximately 0.7%, 4.3% and 5.1% of total outstanding general obligation indebtedness, respectively.

To fund the FY14 capital budget, the Commonwealth borrowed by issuing \$2.160 billion in long-term bonds, \$1.492 billion of which was general obligation debt and \$668 million was special obligation debt secured by motor fuels taxes and motor vehicle license and registration fees. In addition, \$637 million in refunding bonds were issued in three separate transactions; one current and two advanced refunding transactions. The present value savings of these refunding transactions are immaterial to these financial statements.

#### *MSBA Debt*

As of June 30, 2014, the MSBA had outstanding approximately \$5.632 billion of Dedicated Sales Tax bonds, including approximately \$511 million of unamortized premiums for the purpose of funding school construction and renovation projects. Coupons on the bonds range from approximately 2.0% to 5.715% and each series is payable semiannually with the latest maturity occurring in FY43. A portion of the interest on the Dedicated Sales Tax Bonds is reimbursed by the federal government. Of the \$5.632 billion of debt outstanding as of June 30, 2014, \$450 million is taxable Build America Bonds for which the MSBA is eligible to receive a 35% interest subsidy directly from the United States Treasury. In addition, \$293 million of the Subordinated Dedicated Sales Tax Bonds was issued as "Qualified School Construction Bonds" for which the MSBA is eligible to receive a 100% interest subsidy payment directly from the United States Treasury. During FY13 and FY14, the federal government implemented automatic budget cuts imposed through sequestration required pursuant to the Budget Control Act of 2011. Subsidy payments received from March 1, 2013 through September 30, 2013 were reduced by 8.7% (5.1% on an annualized basis) due to sequestration. On September 30, 2013, the IRS published a notice indicating that subsidy payments processed on or after October 1, 2013 and on or before September 30, 2014 will be reduced by the FY14 sequestration rate of 7.2%. The notice states that the sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise modifies the sequester. The reductions were approximately \$662,000 on the 2010 Series A Bonds and 2011 Series A Bonds in FY13, and \$2.1 million on the 2009 Series B Bonds, 2010 Series A Bonds and 2011 Series A Bonds in FY 14.

#### **B. SPECIAL OBLIGATION BONDS**

##### *Commonwealth Transportation Fund (CTF)*

The largest amount of special obligation bonds outstanding (by par) are bonds secured by certain revenues of the Commonwealth Transportation Fund. In FY14, the Commonwealth issued approximately \$424 million in special obligation bonds under the Accelerated Bridge Program (ABP). These bonds mature from FY15 to FY43 and are secured by a senior lien on 17 cents of the total 24 cents per gallon gasoline tax, the full 24 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), the full 19.1% of the average price per gallon tax on liquefied natural gas and all Registry

of Motor Vehicle fees deposited into the CTF. These bonds also have a subordinate lien on 6.86 cents of the 24 cent per gallon gasoline tax not included in the senior lien. As of June 30, 2014, approximately \$1.404 billion in principal was outstanding on the ABP bonds and approximately \$1.125 billion of interest (net of the federal subsidy) was expected to be paid through maturity.

#### *Motor Fuels Tax Bonds*

Other special obligation bonds for highway construction purposes are secured by a pledge of 6.86 cents of the 24 cent per gallon gasoline tax. During FY14, the Commonwealth issued current refunding bonds of approximately \$10 million to refund, in the current year, a future maturity. As of June 30, 2014 bonds secured by these pledged funds totaled approximately \$250 million of principal and approximately \$54 million in interest. These bonds mature from FY14 to FY22 and were issued in various series. Principal and interest paid during FY14 amounted to approximately \$37 million and \$15 million, respectively.

#### *Convention Center Fund*

Chapter 152 of the Acts of 1997, as amended, authorized \$694 million of special obligation bonds to be issued for the purpose of building a new convention center in Boston (\$609 million), the Springfield Civic Center (\$66 million) and the Worcester Convention Center (\$19 million). The bonds are payable from monies credited to the Convention Center Fund created by that legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance, the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). As of June 30, 2014, taxes within the Convention Center districts support approximately \$639 million of outstanding principal and approximately \$423 million of interest on debts related to these Convention Centers. Taxes collected in FY14 were approximately \$109 million, while debt service on the bonds was approximately \$37 million.

### **C. FEDERAL GRANT ANTICIPATION NOTES**

All federal highway reimbursements are dedicated to funding the principal portion only of federal grant anticipation notes (GANs) issued in fiscal 1998, 1999, 2001, 2011, 2014 and refunding notes in fiscal 2003 and fiscal 2011. During FY14, the Commonwealth issued approximately \$253 million in GANs for new-money needs under the Commonwealth's Accelerated Bridge Program. As of June 30, 2014, total principal remaining to be paid is approximately \$531 million. Maturities are from FY15 through FY27. Debt service paid during FY14 was approximately \$186 million.

The legislation authorizing such notes contains a statutory covenant that as long as any such GANs remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the GANs have been met. If the United States Congress reduces the aggregate amount appropriated nationwide to less than \$17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that an additional 10 cents per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. Principal amortization of the notes began in fiscal 2006 and will continue through fiscal 2015. Under the trust agreement securing the notes, aggregate annual debt service on GANs may not exceed \$216 million unless the rating agencies rating the notes confirm that exceeding \$216 million in annual debt service will not cause them to withdraw or reduce their credit ratings. Such notes and the interest thereon are secured solely by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises. In practice, the interest on such notes has been paid from Commonwealth appropriations.

### **D. THE BUILD AMERICA BOND PROGRAM**

As part of the federal America Recovery and Reinvestment Act (ARRA) in 2009, municipal issuers were authorized to issue taxable bonds to fund new capital expenditures and receive an interest rate subsidy from the U.S. Treasury. As part of the temporary Build America Bond (BABs) program issuers, including the Commonwealth, issued taxable bonds in calendar years 2009 and 2010 in return for a subsidy from the federal government equal to 35% to 45% of the interest costs on the

bonds, depending on whether the proceeds are used for projects in economically distressed areas. Between the GO bond program and the special obligation bond programs, the Commonwealth issued a total of \$2.791 billion in Build America Bonds and Recovery Zone Economic Development Bonds in six separate financings over the two year period of the temporary program. All of the bonds were issued as “direct pay to issuer”, meaning that the interest rate subsidies would be paid to the Commonwealth from the U.S. Treasury and not pledged to bondholders. As of June 30, 2014, the expected interest rate subsidy to be received through final maturity of all of the bonds issued as part of this program totaled \$862 million. The Commonwealth’s repayment obligation to bondholders is based on the gross interest rate. From a budgetary perspective, the bonds’ debt service is budgeted at the net-of-interest-rate subsidy rate.

Given the interest rate subsidy from the U.S. Treasury and given market conditions at the time of the Commonwealth’s BABs sales, this program resulted in borrowings whose net interest costs will be significantly lower than the interest on traditional tax-exempt bonds. The BABs program expired on December 31, 2010.

#### **E. INTEREST RATE SWAP AGREEMENTS – OBJECTIVES AND RISKS**

Over the last twenty years, the Commonwealth has periodically entered into interest rate swap agreements for the sole purpose of hedging changes in the interest rates on a portion of its outstanding variable rate bonds, taking advantage of the fact that these bonds, combined with interest rate swaps, generally result in lower interest costs than fixed-rate bonds. Of the Commonwealth’s variable-rate debt outstanding of approximately \$3.592 billion, approximately \$2.820 billion were hedged via floating-to-fixed interest rate swap agreements. Of this amount, \$2.740 billion are for G.O. bonds and the remainder on outstanding special obligation bonds.

Under the terms of these floating-to-fixed rate hedge agreements, counterparties to the hedge agreements are obligated to pay the Commonwealth an amount equal to or approximately equal to the variable-rate interest payment to bondholders of the related bonds or an interest payment based on a market index. In return, the Commonwealth is obligated to pay counterparties a stipulated fixed rate. The floating rate payments received by the Commonwealth from its swap counterparties are used to offset the variable rate payments paid to bondholders. Only the net difference in interest payments is actually exchanged with the swap counterparty. The net payments made or received on these hedge agreements are reported as part of interest expense on the Commonwealth’s basic financial statements. In all cases, the Commonwealth remains responsible for making interest payments to the variable rate bondholders.

##### *Objective of the Interest Rate Swap Agreements*

In connection with the issuance of variable rate GO refunding bonds in 1997, 1998, 2001, 2003, 2005, 2006, and 2007, the Commonwealth entered into interest rate swap hedge agreements with certain counterparties to hedge against the volatility of the interest rates on certain bonds whose interest costs were floating and not fixed. Additional swap agreements were entered into to hedge this same volatility on certain special obligation bonds, including the Commonwealth’s Series 2005 Special Obligation Tax Revenue (Gas Tax) Bonds and the Series 2004 Special Obligation Dedicated Tax Revenue (Convention Center) Bonds. In addition, a floating-to-fixed rate swap agreement was novated or transferred to the Commonwealth from the Route 3 North Transportation Improvements Association (secured by Commonwealth Contract Assistance) in November 2008 after the lease revenue bonds associated with that swap experienced remarketing failure. The swap was assigned to a portion of the Commonwealth’s previously unhedged variable rate bonds that were outstanding.

The intended effect of these agreements is essentially to fix the Commonwealth’s interest rate obligations with respect to its variable-rate bonds in order to hedge or mitigate the Commonwealth’s exposure to changes in interest rates on these bonds. For example, during a period when interest rates rise, the Commonwealth would receive higher payments from swap counterparties that would be used to offset higher payments to bondholders of the outstanding variable rate bonds. During a period when interest rates decline, the reduction in interest payments to bondholders would offset the higher payments made to swap counterparties. But in both scenarios, the net obligation of the Commonwealth is essentially fixed through the life of the swap and bonds. This allows the Commonwealth to finance its capital budget using floating rate bonds, which, combined with interest rate hedges, are less costly than fixed-rate bonds while hedging the risk of rising interest rates on those bonds to provide long-term budgetary and cash flow certainty. As of June 30, 2014, all of the Commonwealth’s interest rate swaps were floating-to-fixed rate agreements and were deemed effective hedges pursuant to GASB Statement No. 53.

*Terms of the Interest Rate Swap Agreements*

The variable rate bonds and their related swap agreements have final maturities ranging from 2014 to 2037. The swaps' total notional value of approximately \$2.923 billion effectively matches the par amount of the related variable-rate bonds.

Under the swap agreements, the Commonwealth pays the relevant counterparties fixed rates ranging from 3.555% to 5.250% and receives variable-rate payments equal to or approximately equal to the amount of variable rate payments the Commonwealth pays on the related variable-rate refunding bonds or a payment based on a market index. In some of the outstanding swap agreements, the Commonwealth receives an interest rate based on changes to Libor, the SIFMA index, or the CPI index. In other agreements, the floating payment received by the Commonwealth is precisely equal to the variable rate payment paid to bondholders based on an active remarketing of those bonds.

*Credit Risk of the Interest Rate Swap Agreements*

As of June 30, 2014, the Commonwealth is not exposed to credit risk because the swaps had a negative fair value. Should interest rates change and the fair value of the swaps become positive, the Commonwealth would be exposed to credit risk in the amount of the swap's fair value. All of the Commonwealth's counterparties are required to post collateral in certain circumstances, including credit rating downgrades. The Commonwealth is not required to post collateral in any of its existing swap agreements.

The chart below details the Commonwealth's outstanding swaps and related bond issuances (amounts in thousands except for percentages).

Associated Bond Issue	Notional Amounts Outstanding	Effective Date	Replacement Agreement Effective Date	Terms		Fair value at June 30		Change in Fair Value	Final Termination Date	Counterparty	Counterparty Credit Rating Moody's/S&P/Fitch
				Fixed Rate Paid (Range)	Variable Rate Received	2014	2013				
<u>General Obligation Bonds:</u>											
Series 1997B	\$ 54,075	8/12/1997	8/12/1997	4.659%	Cost of Funds	\$ (1,427)	\$ (4,013)	\$ 2,586	8/1/2015	Goldman Sachs Matsui Marine Derivative Products Co., LP	Aa2/AAA/NA
Series 1997B	36,050	8/12/1997	9/1/2010	4.659%	SIFMA	(938)	(2,633)	1,695	8/1/2015	Sumitomo Mitsui Banking Corp	Aa3/A+/A-
Series 1998A	60,775	9/17/1998	9/3/2012	4.174%	Cost of Funds	(2,155)	(7,452)	5,297	9/1/2016	Wells Fargo Bank	A2/A/A+
Series 1998A, Series 2006A, Series 2000A, & Series 2000B	143,838	9/17/1998	11/17/2008	4.174%	60% 1-Month LIBOR + 25 basis points	(5,208)	(10,608)	5,400	9/1/2016	Deutsche Bank AG	Aa3/AA-/AA-
Series 2000A	105,417	8/16/2007	8/16/2007	3.942%	SIFMA - 3 basis points	(8,713)	(11,693)	2,980	8/1/2018	Merrill Lynch Cap Svcs	Baa2/A-/A
Series 2000A	53,108	8/16/2007	8/16/2007	3.942%	SIFMA - 3 basis points	(4,224)	(5,882)	1,658	8/1/2018	JP Morgan formerly Bear Stearns	Aa3/A+/A+
Series 2001B & C	487,095	2/20/2001	2/20/2001	4.150%	Cost of Funds	(61,534)	(71,913)	10,379	1/1/2021	Morgan Stanley Capital Services	Baa2/A-/A
Series 2003B	45,765	3/12/2003	3/12/2003	4.500%	CPI-based formula	(2)	(979)	977	12/1/2014	Goldman Sachs Matsui Marine Derivative Products Co., LP	Aa2 / AAA / NA
Series 2003B	-	-	-	-	-	-	(93)	93	12/1/2013	Deutsche Bank AG	A2 / A+ / A+
Series 2006B, Series 2000D	294,000	11/25/2008	4/2/2009	4.515%	67% 3-Month LIBOR	(80,716)	(81,725)	1,009	6/15/2033	Barclays Bank PLC	A2/A/A
Series 2006C	100,000	1/1/2007	9/1/2013	3.73%-3.85%	CPI-based formula	(2,762)	(4,813)	2,051	11/1/2020	Wells Fargo Bank	Aa3/AA-/AA-
Series 2007A	400,000	5/30/2007	10/8/2008	4.420%	67% 3-Month LIBOR + 0.57%	(35,836)	(41,967)	6,131	5/1/2037	Barclays Bank PLC	A2/A/A
Series 2007A (refunding)	414,130	5/30/2007	10/8/2008	4.083%	67% 3-Month LIBOR + 0.57%	(64,950)	(66,641)	1,691	11/1/2025	Bank of NY Mellon	Aa2/AA-/AA-
Series 2007A (refunding)	31,665	5/30/2007	10/8/2008	3.936%	67% 3-Month LIBOR + 0.57%	(4,212)	(4,575)	363	11/1/2020	Deutsche Bank AG	A2/A/A+
Series 2010A, 2011A, 2012A(refunding) & 2013A	513,680	3/15/2005	9/1/2013	3.555% - 4.004%	SIFMA	(73,991)	(78,161)	4,170	2/1/2028	Wells Fargo Bank	Aa3/AA-/AA-
Subtotal	2,739,598					(346,668)	(393,148)	46,480			
<u>Special Obligation Dedicated Tax Revenue Bonds</u>											
Series 2004 (Convention Ctr)	28,863	6/29/2004	6/29/2004	4.45% - 5.25%	CPI-based formula	(932)	(1,861)	929	1/1/2018	Goldman Sachs Cap Markets	A2/A-/A
Series 2004 (Convention Ctr)	28,864	6/29/2004	6/29/2004	4.45% - 5.25%	CPI-based formula	(942)	(1,861)	919	1/1/2018	JP Morgan formerly Bear Stearns	A3/A/A+
Series 2004 (Convention Ctr)	28,863	6/29/2004	6/29/2004	4.45% - 5.25%	CPI-based formula	(940)	(1,861)	921	1/1/2018	JPMorgan Chase Bank	Aa3/A+/A+
Series 2005A (Gas Tax)	96,490	1/12/2005	1/12/2005	4.771% - 5.059%	CPI-based formula	(4,157)	(5,993)	1,836	6/1/2022	Merrill Lynch Cap Serv	Baa2/A-/A
Subtotal	183,080					(6,971)	(11,576)	4,605			
Total	\$ 2,922,678					\$(353,639)	\$(404,724)	\$ 51,085			

#### *Fair value of the Interest Rate Swap Agreements*

The aggregate fair value balance of interest rate swaps at June 30, 2014 is negative \$354 million and is reflected on the statement of net position as a liability for derivative instruments which is offset by deferred outflows from derivative instruments. The fair values of the interest rate swaps are estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. Because all of the interest rate swaps were deemed effective hedges, changes in fair value of the interest rate swaps during the fiscal year ended June 30, 2014 were recognized as deferred outflows resulting in no impact on the Statement of Activities.



If all the Commonwealth's swap agreements had been terminated as of the end of FY14, the Commonwealth would have been required to make a payment of this magnitude. Although the Commonwealth has the option of terminating its swap agreements at any time (and either make or receive any termination payment due), the Commonwealth's counterparties do not have such an option. Therefore, the Commonwealth would only have to make a payment of the amount estimated above if certain termination events occurred, as described herein. Based on the terms and provisions of the swap agreements and the Commonwealth's current bond ratings, an involuntary termination of the swap agreements due to an event of the Commonwealth is remote. In the case of a voluntary termination due to an event of a counterparty, the Commonwealth would likely seek to maintain the existing hedge by replacing that counterparty with another.

#### *Basis and Market-Access Risk of the Interest Rate Swap Agreements*

Because the terms on most of the interest rate swap hedge agreements require the Commonwealth's counterparties to make variable rate payments equal or approximately equal to those the Commonwealth makes on the related variable rate bonds, the Commonwealth is not subject to significant basis risk as a result of the terms of these agreements. Under certain circumstances, such as a downgrade of the credit rating of the bonds being hedged or the enactment of tax-related legislation which causes the related bonds to trade differently, certain of the swap agreements provide that the Commonwealth's counterparties, may, at their option, pay a variable rate that is based on one or more market indices such as LIBOR or the SIFMA swap index. Under these circumstances, the Commonwealth would be subject to basis risk if these indices varied from the basis for the variable rates that were paid to bondholders that were determined for the Commonwealth's variable-rate demand bonds through the associated remarketing process. For certain other interest rate swap agreements, the variable rate on the swap is based on a market index that differs from the variable rate on the hedged bonds, which is generally remarketed or auction rate. The Commonwealth is subject to basis risk on these agreements.

A majority of the swap contracts have the same maturity dates and amortizations as the related bonds. For two of the swap agreements, the underlying bonds have maturity dates that come due before the termination date of the associated swaps. This applies to the 2006B and 2000D bonds being hedged by the \$294 million notional hedge agreement with Barclays and the 2010A bonds being hedged by the \$513 million notional swap with Wells Fargo Bank. The Commonwealth's stated debt plan is to extend the underlying variable rate bonds to match the terms and amounts of the associated swaps. If the Commonwealth is unable to extend the underlying variable rate bonds or identify other variable rate bonds the swaps may hedge, the Commonwealth would be required to make net settlement payments on the swaps without the offsetting effects of changes in variable rate bond settlement payments.

#### *Termination Risk of the Interest Rate Swap Agreements*

The swap agreements are based on the International Swap Dealers Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The swap agreements include termination events additional to those in the standard ISDA master agreement based on credit ratings. The swap agreements are not otherwise subject to termination except at the Commonwealth's option. The swap agreements require that the Commonwealth's counterparties maintain certain ratings levels. If they fail to maintain such ratings, the Commonwealth would have the option to terminate the related swap agreement and receive or pay a termination payment depending on the interest rates at the time. Similarly, the Commonwealth is required to maintain certain credit ratings under the agreements, generally 'BBB-' or above, well above the current credit rating of 'AA+' (based on long-term ratings assigned by Standard & Poor's). If the Commonwealth's rating fell below the defined threshold levels, the Commonwealth's counterparties would have the option to terminate the related swap agreements or for certain agreements choose to make variable rate payments based on a market index (instead of the actual bond rate) which would subject the Commonwealth to basis risk, as previously described. If one or more of the swap agreements were terminated, then the related variable rate bonds would no longer be hedged and the Commonwealth would no longer be paying a synthetic fixed rate with respect to the bonds. In addition, if at the time of termination, the swap had a negative fair value, the Commonwealth would incur a loss and would be required to settle with the related counterparty or counterparties at the swaps' fair market values. However, to avoid a termination payment and to maintain the interest rate hedge, when the terminating event is an event of the counterparty, the Commonwealth would likely seek to replace counterparties to the swap agreement. Based on the terms and provisions of the swap agreements and the Commonwealth's current bond ratings, an involuntary termination of the swaps due to an event of the Commonwealth is remote.

**F. OUTSTANDING SWAPPED DEBT***Security for Interest Rate Swap Agreements*

Under legislation approved by the Governor on August 11, 2008, scheduled, periodic payments to be made by the Commonwealth pursuant to swap agreements in existence on August 1, 2008 or entered into after such date shall constitute general obligations of the Commonwealth for which its full faith and credit is pledged.

Future bond interest payments are calculated using rates applicable to the scheduled payment nearest to June 30, 2014 for variable rate bonds. The net swap payments are calculated by subtracting the projected future variable rate interest payment per the swap agreement from the projected future fixed rate payment per the swap agreement. Projected future variable rate payments on the swap agreements are based on variable rates applicable to the scheduled payment nearest to June 30, 2014. The actual amount of variable rate interest paid to bondholders and net swap payments made to counterparties are affected by changes in variable interest rates, changes in inflation (CPI), as well as changes in the London Interbank Offered Rate (LIBOR) and the Securities Industry and Financial Markets Association (SIFMA) floating rate indices. Changes in the amounts paid to bondholders versus amounts paid to counterparties are largely offsetting.

Debt service requirements to maturity for variable-rate bonds hedged by interest rate swap agreements and projected future net settlement payments on interest rate swap agreements at June 30, 2014 are provided below (amounts in thousands):

Fiscal Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2015.....	\$ 225,515	\$ 17,512	\$ 99,066	\$ 342,093
2016.....	238,668	15,333	91,876	345,877
2017.....	343,700	14,026	83,089	440,815
2018.....	114,840	11,455	75,082	201,377
2019.....	205,290	10,971	69,488	285,749
2020-2024.....	1,000,875	31,819	237,353	1,270,047
2025-2029.....	497,535	10,817	93,629	601,981
2030-2034.....	212,605	5,469	35,288	253,362
2035-2039.....	83,650	933	4,721	89,304
Total.....	<u>\$2,922,678</u>	<u>\$118,335</u>	<u>\$ 789,592</u>	<u>\$ 3,830,605</u>

*Business - Type Activities – Swapped Debt*

The University System has various swaps. At June 30, 2014, the fair value liability of the universities' outstanding interest rate swaps was \$69 million.

For financial reporting purposes, long-term debt is carried at its face value. Unamortized discounts and premiums are shown separately. For capital appreciation bonds, the outstanding amount represents total principal and accreted interest to be repaid.

*Component Unit – Swapped Debt*

At June 30, 2014, the majority of interest rate swaps outstanding are held by MassDOT, which in aggregate have a negative fair value of approximately \$449 million. For complete details, see separate MassDOT financial statements.

**G. OUTSTANDING LONG-TERM DEBT AND CHANGES IN LONG TERM DEBT**

The amount of long-term debt authorized but unissued is measured in accordance with the statutory basis of accounting. Long-term debt principal outstanding and debt authorized and unissued at June 30, 2014 is as follows (amounts in thousands):

Purpose	Principal Outstanding	Fiscal Year Maturities	Authorized and Unissued
GANs.....	\$ 530,935	2015-2027	\$ -
Capital projects:			
General.....	9,393,350	2015-2044	9,131,114
Highway.....	10,605,205	2015-2044	17,107,407
Local aid.....	1,251,662	2015-2038	17,247
Other.....	638,700	2015-2034	-
Subtotal.....	21,888,917		26,255,768
Subtotal - governmental activities debt (exclusive of MSBA).....	22,419,852		\$ 26,255,768
MSBA debt.....	5,632,470		
Governmental activities debt.....	\$ 28,052,322		

Interest rates on the Commonwealth's outstanding debt at the end of FY14 ranged from 0.5% to 6.6%.

Changes in long-term debt outstanding (excluding discount and premium) and bonds authorized - unissued for the year ended June 30, 2014 are as follows (amounts in thousands):

	Governmental Funds		Governmental	
	Debt - Primary Government	MSBA	Funds Bonded Debt	Authorized and Unissued
Balance July 1, 2013.....	\$ 21,513,039	\$ 5,195,160	\$ 26,708,199	\$ 13,762,257
Plus: Increases in bonds authorized.....	-	-	-	14,816,620
Less: Authorizations deauthorized.....	-	-	-	(8,048)
General and special obligation bonds:				
Proceeds, as defined as principal, premium				
less discount.....	3,189,269	599,125	3,788,394	(2,315,061)
Less: Net premium.....	(192,575)	(50,125)	(242,700)	-
Less: Principal on refunded bonds.....	(655,370)	-	(655,370)	-
Less: Bonds retired.....	(1,434,511)	(111,690)	(1,546,201)	-
Outstanding principal June 30, 2014.....	\$ 22,419,852	\$ 5,632,470	\$ 28,052,322	\$ 26,255,768

**Business - Type Activities – Colleges and University Debt**

Building authorities related to the University of Massachusetts and the state universities have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed \$200 million. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts and state universities have also entered into various loan agreements as participants in the MassDevelopment's ongoing capital asset program to finance construction projects and equipment.

At June 30, 2014, debt service requirements to maturity for principal and interest are as follows (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities					Business - Type Activities	
	Excluding MSBA Debt		MSBA Debt			Revenue Obligation	
	Principal	Interest *	Principal	Interest	Interest subsidies (1)	Principal	Interest
2015.....	\$ 1,691,269	\$ 949,381	\$ 116,555	\$ 278,385	\$ (22,470)	\$ 177,542	\$ 180,363
2016.....	1,596,448	889,779	119,885	272,158	(24,213)	136,691	174,041
2017.....	1,353,826	828,344	128,420	266,328	(24,213)	137,061	169,608
2018.....	1,226,674	773,928	132,665	260,118	(24,213)	142,712	162,058
2019.....	1,100,787	722,135	154,630	253,838	(24,213)	145,525	161,095
2020 - 2024.....	5,429,819	2,822,841	810,640	1,153,765	(121,065)	780,156	714,370
2025- 2029.....	3,996,950	1,735,559	1,070,285	937,646	(101,074)	765,044	549,371
2030 - 2034.....	2,792,324	978,905	1,227,660	625,924	(41,062)	665,124	365,809
2035 - 2039.....	1,892,655	498,721	1,270,385	314,308	(19,093)	729,654	205,089
2040 - 2044.....	1,339,100	146,135	601,345	69,311	(578)	440,671	59,853
2045 - 2049.....	-	-	-	-	-	123,551	4,431
Total long - term debt..	22,419,852	10,345,728	5,632,470	4,431,781	(402,194)	4,243,731	2,746,088
Less: current portion...	(1,691,269)	(949,381)	(116,555)	(278,385)	22,470	(177,542)	(180,363)
Long - term debt.....	\$ 20,728,583	\$ 9,396,347	\$ 5,515,915	\$ 4,153,396	\$ (379,724)	\$ 4,066,189	\$ 2,565,725

\*for all variable rate interest not hedged by swap agreements the budgeted interest rate is 5%

(1) FY15 Interest Subsidies reflect projected sequestration reductions of 7.2%. There may be sequestration reductions in future years as well.

## H. PRIOR DEFEASANCE

The Commonwealth defeased certain general and special obligation bonds by purchasing securities from the proceeds of advance refunding bonds or from surplus operating funds and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. The trust account assets and the liabilities for the defeased bonds are not included in the financial statements. As of June 30, 2014, approximately \$2.436 billion of bonds outstanding from advance refunding activities is considered defeased.

### *Business - Type Activities*

The University of Massachusetts (UMass) and the Massachusetts State College Building Authority (MSCBA) defeased various bonds by issuing refunding bonds and placing the proceeds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. The trust assets and the liabilities of the defeased bonds are not included in the business type activity financial statements. As of June 30, 2014, approximately \$309 million and \$133 million of bonds outstanding from advanced refunding transactions are considered defeased for UMass and MSCBA, respectively.

## I. STATUTORY DEBT LIMIT

The Massachusetts General Laws, as recently amended, establishes limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for FY14 was approximately \$18.820 billion. Outstanding debt subject to the limit at June 30, 2014 was approximately \$17.631 billion.

For purposes of determining compliance with the limit, outstanding direct debt is defined by statute, as amended on June 10, 2013 (effective January 1, 2013), as principal outstanding. It excludes BANs and discount, if any, special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, debt issued in conjunction with the MBTA Forward Funding, certain Central Artery/Tunnel debt and debt issued for the SMART program. The amounts excluded from the debt limit are as follows (amounts in thousands):

	Principal Outstanding
Statutory debt June 30, 2014.....	\$ 22,419,852
Less amounts excluded:	
Central artery project bonds.....	(1,241,263)
Accelerated bridge program.....	(1,756,395)
GANs.....	(178,390)
MBTA forward funding.....	(207)
SMART bonds.....	(723,917)
Convention center bonds.....	(638,700)
Special obligation gas bonds.....	(249,705)
Outstanding direct debt.....	<u>\$ 17,631,275</u>

#### J. ADMINISTRATION DEBT LIMIT

During FY09, the administration announced a policy that sets the annual borrowing limit at a level designed to keep debt service at a maximum of 8% of budgeted revenues. For this purpose, debt service includes principal and interest payments on all general obligation debt, special obligation gas tax debt, interest on federal grant anticipation notes, general obligation contract assistance payment obligations and budgetary contract assistance payment obligations on certain capital lease financings. Debt of the Massachusetts School Building Authority and of the Massachusetts Bay Transportation Authority that is supported by the portion of the sales tax legally dedicated to such entities is not included for purposes of this analysis, as the Commonwealth is not liable for such debt; similarly, the sales tax revenues legally dedicated to such entities are not included in the budgeted revenue projections.

In addition to keeping debt service at a maximum of 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap to not more than \$125 million through fiscal 2014. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels.

The Administration intends to treat all debt and debt-like obligations of the Commonwealth as subject to the bond cap for purposes of developing the annual capital budget, except in limited circumstances when there is a sound policy justification for not including a particular debt issue. Debt may be excluded from the bond cap, for example, where there is a new, dedicated source of project-related revenues supporting the payment of debt service on such debt; in such cases, the dedicated revenue would also be excluded from projected budgeted revenues for purposes of determining the bond cap as described above.

The following table shows the annual bond cap, the resulting total annual debt service payment obligations and debt service as a percentage of budgeted revenues, (amounts in thousands):

	Fiscal 2014
Bond cap as approved by the Governor.....	\$ 2,205,673
Total annual debt service obligations.....	2,354,910
Budgeted fund revenues.....	37,230,145
Debt service as % of budgeted revenues.....	6.3%

**K. CHANGES IN LONG-TERM LIABILITIES**

The following table summarizes changes in long-term liabilities for both governmental activities and business-type activities (amounts in thousands):

*Changes in Long Term Liabilities - Governmental Activities:*

Description	Beginning Balance*	Additions	Deletions	Ending Balance	Due Within One Year
Other long-term obligations:					
Compensated absences.....	\$ 518,309	\$ 527,200	\$ 518,309	\$ 527,200	\$ 348,880
Claims and judgments.....	12,831	36,137	13,265	35,703	33,203
Prizes payable.....	1,486,299	175,999	292,021	1,370,277	-
School construction grants payable.....	1,519,769	869,223	1,064,434	1,324,558	397,171
Retirement system pension obligations.....	1,815,009	1,913,335	1,509,364	2,218,980	-
Post employment benefit obligations.....	4,147,000	1,293,000	608,000	4,832,000	-
Environmental remediation liability.....	230,784	-	13,438	217,346	11,510
Lottery instant grand prizes.....	29,771	803	-	30,574	-
Workers' compensation.....	282,694	43,035	52,297	273,432	38,554
Arbitrage rebate - MSBA.....	10,022	1,042	-	11,064	-
Group insurance claims.....	96,356	1,403,590	1,402,925	97,021	94,790
Total other long-term obligations.....	10,148,844	6,263,364	5,474,053	10,938,155	924,108
Liability for derivative instruments.....	404,724	353,639	404,724	353,639	-
Bonded Debt:					
Bonds and notes payable - non MSBA.....	21,513,039	2,341,324	1,434,511	22,419,852	1,691,269
Unamortized bond and note premiums - non MSBA...	532,634	192,575	54,627	670,582	65,837
MSBA Bonds and notes payable excluding premium...	5,195,160	549,000	111,690	5,632,470	116,555
Unamortized bond and note premiums - MSBA.....	466,437	50,125	5,786	510,776	40,649
Other financing arrangements:					
Capital leases.....	50,831	10,569	5,522	55,878	9,383
Total bonded debt and other financing arrangements.....	27,758,101	3,143,593	1,612,136	29,289,558	1,923,693
<b>Long-term liabilities, governmental activities.....</b>	<b>\$ 38,311,669</b>	<b>\$ 9,760,596</b>	<b>\$ 7,490,913</b>	<b>\$ 40,581,352</b>	<b>\$ 2,847,801</b>

*Changes in Major Long Term Liabilities - Business-Type Activities:*

Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Other long-term obligations:					
Compensated absences.....	\$ 201,006	\$ 32,506	\$ 28,151	\$ 205,361	\$ 141,272
Environmental remediation liability.....	1,467	-	20	1,447	1,447
Total other long-term obligations.....	202,473	32,506	28,171	206,808	142,719
Liability for derivative instruments.....	70,610	-	465	70,145	-
Bonded Debt:					
Bonds and notes payable, including MSCBA.....	3,736,937	766,921	260,127	4,243,731	177,542
Other financing arrangements:					
Capital leases.....	19,299	1,650	6,420	14,529	4,852
Total bonded debt and other financing arrangements.....	3,756,236	768,571	266,547	4,258,260	182,394
<b>Long-term liabilities, business - type activities.....</b>	<b>\$ 4,029,319</b>	<b>\$ 801,077</b>	<b>\$ 295,183</b>	<b>\$ 4,535,213</b>	<b>\$ 325,113</b>

\*as restated and more fully described in footnote 1

Governmental long-term liabilities, other than debt, are typically liquidated by using General Fund resources.

**Discretely Presented Component Units** – The change in bonds and notes outstanding at June 30, 2014, net of unamortized discounts and premiums and compensated absences are as follows (amounts in thousands):

<i>Discretely Presented Component Units</i>			July 1, 2013				June 30, 2014	Due	
			Beginning Balance*	Increases	Decreases	Ending Balance	Within One Year	Long Term	
<u>Interest Rates</u> <u>Maturities</u>									
Major component units:									
MassDOT.....	0.00 - 7.00%	2015-2041	\$ 8,107,623	\$ 251,073	\$ (306,148)	\$ 8,052,548	\$ 554,780	\$ 7,497,768	
MCWT.....	1.00 - 6.375%	2015-2043	3,771,008	668,168	(1,050,166)	3,389,010	205,540	3,183,470	
Nonmajor component units.....	1.00 - 6.50%	2015-2038	640,276	126,009	(73,594)	692,691	20,791	671,900	
Total bonds and notes payable.....			12,518,907	1,045,250	(1,429,908)	12,134,249	781,111	11,353,138	
Compensated absences, net.....			50,239	4,847	(2,596)	52,490	34,046	18,444	
Total long term liabilities.....			\$ 12,569,146	\$ 1,050,097	\$ (1,432,504)	\$ 12,186,739	\$ 815,157	\$ 11,371,582	

\*As restated and more fully described in footnote 1

Further information on debt is found in the notes to the basic financial statements for the various component units.

## 8. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type had fund deficits at June 30, 2014. None of these funds were in deficit due to finance-related contractual provisions and were allowed to be in deficit by General Law. The amounts are as follows (amounts in thousands):

Other Governmental Funds	Amount
Other Special Revenue Funds:	
Government land bank fund.....	\$ 35,033
Local aid stabilization fund.....	8,325
Community preservation trust fund.....	844
General capital projects fund.....	556,769
Highway capital projects fund.....	484,066
Other Capital Project Funds:	
Federal highway construction program capital projects fund.....	6,814
Government land bank capital projects fund.....	129
Local aid capital projects fund.....	36

## 9. RETIREMENT AND OTHER POST EMPLOYMENT BENEFITS

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System). The members of the retirement systems do not participate in the Social Security System.

**A. PLAN DESCRIPTIONS*****Plan administration***

The Massachusetts *State Employees' Retirement System* (SERS) is a public employee retirement system (PERS), that administers a cost-sharing multi-employer defined benefit plan covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies, including the state police officers at the Massachusetts Port Authority. The former Massachusetts Turnpike Authority (MTA) employees and retirees became members of SERS upon the creation of MassDOT. Other employees who transferred to MassDOT had been, and remain, members of SERS. The assets and liabilities of the former MTA have been transferred to SERS. SERS is administered by the Massachusetts State Retirement Board and is part of the reporting entity and does not issue a stand-alone audited financial report.

Management of the SERS is vested in the Massachusetts State Retirement Board (the SRB), which consists of five members—two elected by current and active SERS members, one by the remaining members of the SRB, one who is appointed by the State Treasurer and the State Treasurer, who serves as ex-officio and is the Chairman of the SRB.

Certain Commonwealth employees and current retirees employed prior to the establishment of SERS are covered on a “pay-as-you-go” basis. Benefits are recorded when due and payable.

The Massachusetts *Teachers' Retirement System* (MTRS) is a PERS that administers a cost-sharing multi-employer defined benefit plan managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts and Quincy College. The MTRS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand-alone audited financial report.

Management of the MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves as ex-officio and is the Chairman of the MTRB.

***Plan membership.*** As of January 1, 2014, the date of the most recent valuation, plan membership consisted of the following:

	<u>SERS</u>	<u>MTRS</u>
Retirees and beneficiaries		
currently receiving benefits .....	56,327	61,034
Terminated employees entitled to		
benefits but not yet receiving them.....	<u>4,216</u>	<u>-</u>
Subtotal.....	60,543	61,034
Current members.....	<u>88,156</u>	<u>88,788</u>
Total.....	<u><u>148,699</u></u>	<u><u>149,822</u></u>

Boston teachers are members of the State Boston Retirement System (SBRS) and are not included in this membership data.

***Benefits provided.*** SERS and MTRS provide retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.



Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The retirement systems' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the SERS and TRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets. Member contributions for SERS and MTRS vary depending on the most recent date of membership:

Hire Date	% of Compensation
Prior to 1975.....	5% of regular compensation
1975 - 1983.....	7% of regular compensation
1984 to 6/30/1996.....	8% of regular compensation
7/1/1996 to present.....	9% of regular compensation except for State Police which is 12% of regular compensation
7/1/2001 to present.....	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present.....	An additional 2% of regular compensation in excess of \$30,000

## B. INVESTMENTS

**Investment Policy.** Investment of assets in the SERS and MTRS are with the Pension Reserves Investment Trust (PRIT) Fund, which is managed by the Pension Reserves Investment Management (PRIM) Board. The PRIM Board seeks to maximize the total return on investments within acceptable levels of risk for a public pension fund. The PRIM Board recognizes that over the long term, asset allocation is the single greatest contributor of return and risk to the PRIT Fund. The investment policy statement adopted by the PRIM Board requires a comprehensive review of the PRIM Board's asset allocation plan and its underlying assumptions at reasonable intervals of not more than three to five years. In addition, the investment policy statement requires that the PRIM Board conduct an annual evaluation of the PRIT Fund's asset allocation. The PRIM Board's last comprehensive review of the PRIT Fund asset allocation was conducted during fiscal 2014. See note 1 (D) for a description of the fair value policies of PRIT's investments.

The following was the PRIT Fund asset allocation as of June 30, 2014:

Asset Class	Target Allocation	
	SERS	MTRS
Global Equity.....	43.0%	43.0%
Core Fixed Income.....	13.0%	13.0%
Hedge Funds.....	10.0%	10.0%
Private Equity.....	10.0%	10.0%
Real Estate.....	10.0%	10.0%
Value Added Fixed Income.....	10.0%	10.0%
Timber/Natural Resources.....	4.0%	4.0%
Total.....	100.0%	100.0%

The annual money-weighted return on pension plan investments calculated as the internal rate of return on pension plan investments net of pension plan expenses for fiscal 2014 was 17.13% for SERS and 17.12% for MTRS. A money-weighted

rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

### C. NET PENSION LIABILITY OF THE SYTEMS REQUIRED BY GASB 67

The components of the net pension liability for SERS and MTRS at June 30, 2014 are as follows (amounts in thousands):

	SERS	MTRS
Total pension liability .....	\$ 31,355,000	\$ 41,435,000
Plan fiduciary net position .....	<u>(23,930,895)</u>	<u>(25,538,646)</u>
Net pension liability .....	<u>\$ 7,424,105</u>	<u>\$ 15,896,354</u>
Fiduciary net position as a percentage of the total pension liability .....	76.3%	61.6%

Additional information regarding changes in the net pension liability can be found in the Required Supplementary Information section of these financial statements.

**Actuarial assumptions.** The total pension liability, for both SERS and MTRS, was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014, using the following actuarial assumptions:

1. The actuarial assumptions included (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 3.5% to 9.0% depending on group and length of service.
3. Mortality rates were as follows:
  - a. SERS:
    - Pre-retirement - reflects RP-2000 Employees Table projected 20 years with Scale AA (gender distinct)
    - Post-retirement - reflects Healthy Annuitant table projected 15 years with Scale AA (gender distinct)
    - Disability - the morality rate is assumed to be in accordance with the RP-2000 Table projected 5 years with Scale AA (gender distinct) set forward 3 years for males.
  - b. MTRS:
    - Pre-retirement - reflects RP-2000 Employees table adjusted for "white-collar" employment projected 20 years with Scale AA (gender distinct)
    - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 15 years with Scale AA (gender distinct)
    - Disability - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 15 years with Scale AA (gender distinct)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	
	SERS	MTRS
Private Equity .....	8.8%	8.8%
Global Equity .....	7.2%	7.2%
Real Estate .....	6.3%	6.3%
Value Added Fixed Income .....	6.3%	6.3%
Hedge Funds .....	5.5%	5.5%
Timber/Natural Resources .....	5.0%	5.0%
Core Fixed Income .....	2.5%	2.5%

**Discount rate.** The discount rate used to measure the pension liability for SERS and MTRS was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the SERS and MTRS net positions were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for SERS and MTRS.

**Sensitivity of the net pension liability to changes in the discount rate.** The following presents the net pension liability of SERS and MTRS, calculated using the discount rate of 8.0%, as well as what the SERS and MTRS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate (amounts in thousands):

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
SERS net pension liability .....	\$ 10,748,000	\$ 7,424,105	\$ 4,571,000
MTRS net pension liability .....	20,247,000	15,896,354	12,200,000

#### **D. ANNUAL PENSION COST AND NET PENSION OBLIGATION REQUIRED BY GASB 27**

GASB Statement No. 68, *Accounting and Reporting for Pensions*, which determines how employers and nonemployer contributing entities will report their pension liabilities on their financial statements, is effective for years beginning after June 15, 2014. Until that statement is implemented, the Commonwealth continues to report its annual pension cost and net pension obligation in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

#### **Schedule of Annual Required Contributions and Calculation Methodology**

Chapter 32 of the General Laws directs the Secretary of Administration and Finance to prepare a funding schedule to meet actuarially determined requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary's direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. Under the current

schedule adopted in 2011, the amortization payments are designed to eliminate the unfunded liability by FY40 according to the following schedule: in FY14 5.0%, increasing to 6.0% in FY15 through FY17. In FY18 the unfunded actuarial liability will be amortized on a 4.0% annual increasing basis to FY40. The funding schedule as published follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability.

Contributions by the Commonwealth of \$1.629 billion were made during the fiscal year ended June 30, 2014. Of this amount \$21 million represents budgeted payments for COLAs granted to participants in retirement systems of cities, towns and counties and approximately \$100 million represents payments for Boston Teachers.

The Commonwealth is financially responsible for the cost of living adjustment (COLA) granted to participants in various retirement systems of cities, towns and counties in fiscal years 1981 to 1997. Chapter 17 of the Acts of 1997 effective for fiscal year 1998 transferred the responsibility for funding COLAs for separate (non-teacher) retirement systems of cities and towns to their respective systems. Any future COLA granted by the Legislature to employees of these plans will be the responsibility of the individual system, assuming approval by the local board. The individual employer governments are also responsible for the basic pension benefits.

The actuarial accrued liability for COLAs as of January 1, 2014 was \$201 million.

The policy for post-retirement benefit increases for all retirees of the SERS, MTRS, for those participants who serve in the City of Boston's School Department in a teaching capacity and COLAs of local governments is subject to legislative approval.

The following table shows the detail of annual required contributions (ARC) and Commonwealth contribution, as well as pension cost contributions exclusive of cost of living adjustments (amounts in thousands), under GASB 27 reporting requirements:

	SERS	MTRS	Total
<u>2014</u>			
Annual required contribution.....	\$ 718,909	\$ 1,158,461	\$ 1,877,370
Interest on net pension obligation.....	36,852	93,677	130,529
Adjustment to annual required contribution.....	(26,698)	(67,866)	(94,564)
Annual pension cost.....	729,063	1,184,272	1,913,335
Less: Contributions made, excluding COLAs.....	(573,428)	(935,936)	(1,509,364)
Increase in net pension obligation.....	155,635	248,336	403,971
Net pension obligation beginning of year.....	541,056	1,273,953	1,815,009
Net pension obligation end of year.....	\$ 696,691	\$ 1,522,289	\$ 2,218,980
Percentage of annual pension cost contributed.....	78.7%	79.0%	78.9%
<u>2013</u>			
Annual pension cost.....	\$ 706,912	\$ 1,126,236	\$ 1,833,148
Percentage of annual pension cost contributed.....	77.2%	79.2%	78.4%
Net pension obligation end of year.....	\$ 541,056	\$ 1,273,953	\$ 1,815,009
<u>2012</u>			
Annual pension cost.....	\$ 625,165	\$ 962,782	\$ 1,587,947
Percentage of annual pension cost contributed.....	83.0%	88.2%	86.2%
Net pension obligation end of year.....	\$ 379,597	\$ 1,039,297	\$ 1,418,894

The funded status of SERS and MTRS as of January 1, 2014, the most recent actuarial valuation date, is as follows (amounts in thousands except for percentages), under GASB 27 reporting requirements:

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll *	UAAL as a % of Covered Payroll *
<b>State Employees Retirement System</b>						
Actuarial Valuation as of January 1, 2014.....	\$ 21,581,133	\$ 30,679,600	\$ 9,098,467	70.3%	\$ 5,344,510	170.2%
<b>Teachers' Retirement System</b>						
Actuarial Valuation as of January 1, 2014.....	\$ 22,940,196	\$ 40,741,695	\$ 17,801,499	56.3%	\$ 5,962,650	298.6%

\* The covered payroll amount approximates the employer payroll

The actuarial assumptions used to determine the annual pension cost and net pension obligation are based on an actuarial valuation as of January 1, 2014. In addition to those assumptions described in section C of this note, the additional actuarial assumptions that are applicable to the GASB 27 tables above are:

1. The actuarial value of assets was determined using various techniques that smooth the effects of short-term volatility in the market value of investments, with a phased-in approach. Under this approach, 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years prior, etc., so that 100% of gains and losses occurring five years prior are recognized. The actuarial value of assets is adjusted if necessary in order to remain between 90% and 110% of market value.
2. Normal costs are amortized using level percentage of payroll, closed.
3. The remaining amortization period for the unfunded pension liability at January 1, 2014 was 27 years to FY40.

Chapter 112 of the Acts of 2010, signed on May 22, 2010, changed the methodology for the Commonwealth funding of Boston teachers in the SBRS and created a special funding situation for the Commonwealth. The cost of pension benefits of the other participants of the SBRS is the responsibility of the City of Boston. Chapter 112 clarified that the Commonwealth is responsible for all contributions and future benefit requirements for Boston Teachers that are members of the SBRS. For the fiscal year ending June 30, 2014, the Commonwealth contributed \$100 million in satisfaction of its actuarially required contribution to the SBRS. The SBRS is a cost sharing multiple employer pension system that is not administered by the Commonwealth and is not part of the reporting entity of the Commonwealth. For a complete copy of SBRS's separately issued financial statements, please contact the City of Boston Retirement Board at (617) 635-4305, or you may download this report at <http://www.cityofboston.gov/retirement/investment.asp>.

#### **E. STATEMENTS OF NET POSITION AND CHANGES IN NET POSITION**

The following table displays the Statement of Net Position and the Statement of Changes in Net Position for the SERS, the MTRS and the SRBT as of June 30, 2014, (amounts in thousands):

	Pension Trust Funds		OPEB Trust Fund	
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 52,178	\$ 126,380	\$ 59,785	\$ 238,343
Net investment in PRIT at fair value.....	23,882,168	25,324,715	545,295	49,752,178
Other receivables.....	1,602	84,390	-	85,992
Other assets.....	10	15,395	-	15,405
<b>Total assets.....</b>	<b>23,935,958</b>	<b>25,550,880</b>	<b>605,080</b>	<b>50,091,918</b>
<b>LIABILITIES</b>				
Accounts payable.....	5,063	12,234	11	17,308
<b>Net position available for post-employment benefits.....</b>	<b>\$ 23,930,895</b>	<b>\$ 25,538,646</b>	<b>\$ 605,069</b>	<b>\$ 50,074,610</b>
<b>ADDITIONS</b>				
Contribution:				
Employer contributions.....	\$ 593,932	\$ -	\$ 487,159	\$ 1,081,091
Non-employer contributions.....	-	1,035,418	-	1,035,418
Employee contributions.....	501,106	653,328	-	1,154,434
Other additions.....	49,115	73,659	120	122,894
<b>Total contributions.....</b>	<b>1,144,153</b>	<b>1,762,405</b>	<b>487,279</b>	<b>3,393,837</b>
Net investment gain/(loss):				
Investment gain/(loss).....	3,675,419	3,904,048	83,767	7,663,234
Less: investment expense.....	(112,563)	(132,165)	(2,970)	(247,698)
<b>Net investment gain/(loss).....</b>	<b>3,562,856</b>	<b>3,771,883</b>	<b>80,797</b>	<b>7,415,536</b>
<b>Total additions.....</b>	<b>4,707,009</b>	<b>5,534,288</b>	<b>568,076</b>	<b>10,809,373</b>
<b>DEDUCTIONS</b>				
Administration.....	36,057	41,675	205	77,937
Retirement benefits and refunds.....	1,825,015	2,551,737	420,361	4,797,113
Payments to State Boston Retirement System.....	-	99,532	-	99,532
<b>Total deductions.....</b>	<b>1,861,072</b>	<b>2,692,944</b>	<b>420,566</b>	<b>4,974,582</b>
<b>Net increase/(decrease).....</b>	<b>2,845,937</b>	<b>2,841,344</b>	<b>147,510</b>	<b>5,834,791</b>
Net position available for post-employment benefits at beginning of year.....	21,084,958	22,697,302	457,559	44,239,819
<b>Net position available for post-employment benefits at end of year.....</b>	<b>\$ 23,930,895</b>	<b>\$ 25,538,646</b>	<b>\$ 605,069</b>	<b>\$ 50,074,610</b>

**F. RESERVES**

Chapter 32 of the MGL establishes certain legally required reserve accounts for both SERS and MTRS. These reserves are used to account for the accumulation of resources according to purpose for which they are received, acquired or held. The reserve accounts can only be modified or changed by legislation.

The balances of legally required reserves at June 30, 2014 were as follows (amounts in thousands):

	SERS	MTRS	Purpose
Annuity Savings Fund.....	\$ 5,684,452	\$ 6,136,294	Active members' contribution balance
Annuity Reserve Fund.....	1,543,995	2,559,907	Retired members' contribution account
Special Military Service Fund.....	44	223	Members' contribution account while on military leave
Pension Reserve Fund.....	16,702,404	16,842,222	Amounts appropriated to fund future retirement benefits
Total	<u>\$ 23,930,895</u>	<u>\$25,538,646</u>	

#### **G. COMMONWEALTH POST EMPLOYMENT OBLIGATIONS OTHER THAN PENSIONS**

In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care/benefit costs which are comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

The Group Insurance Commission (GIC) of the Commonwealth manages the Commonwealth's defined benefit OPEB plan as an agent multiple employer program including the Commonwealth and 370 municipalities and other non-Commonwealth governmental entities. These entities that participate in the GIC are responsible for paying premiums at the same rate to the GIC and therefore benefit from the Commonwealth's premium rates. The GIC has representation on the Board of Trustees of the State Retiree Benefits Trust (SRBT).

At the inception of MassDOT, the employees of the former MTA became eligible to participate in the Commonwealth's OPEB plan. All other employees of MassDOT were members of the plan prior to the creation of MassDOT and remain so. The liability for MassDOT (including former MTA employees) is included in the Commonwealth's liability. The former MTA had established an irrevocable trust to fund OPEB liabilities. That trust had a balance of approximately \$77 million as of June 30, 2014 and the trustees had yet to make a decision on the disposition of that Trust. No adjustment has been made in the Commonwealth OPEB valuation for these assets. On December 17, 2014, the Trustees voted to transfer the assets of the trust to the State Retiree Benefits Trust Fund (SRBTF) for the exclusive benefit and use of the members of the MTA Retirement System and their beneficiaries pending acceptance by the SRBT Board.

The SRBT is set up solely to pay for OPEB benefits and the cost to administer those benefits. It can only be revoked when all such health care and other non-pension benefits, current and future, have been paid or defeased. GIC administers benefit payments, while the Trustees are responsible for investment decisions. The FY14 General Appropriation Act transferred approximately \$420 million to the Trust for the purpose of benefits payments.

#### *Funding Policy*

Employer and employee contribution rates are set in General Law. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2014 and as of the valuation date (January 1, 2014), Commonwealth participants contributed 0% to 20% of premium costs, depending on the date of hire and whether the participant is active, retiree or survivor status. As part of the FY14 General Appropriation Act, all active employees pay an additional 5% of premium costs. Normal costs paid for OPEB to retirees during FY14 totaled approximately \$608 million. There are approximately 151,007 participants eligible to receive benefits at June 30, 2014.

Effective beginning FY13, the Commonwealth by statute is required to allocate, to the SRBTF, a portion of revenue received under the Master Settlement Agreement with tobacco companies, increasing from 10% in FY13 to 100% by FY23. In FY14, 20% of tobacco settlement proceeds or approximately \$56 million was allocated to the SRBTF.

*Annual OPEB Cost and Net OPEB Obligation, Funded Status and Funding Progress*

The Commonwealth is not required to contribute the actuarially determined annual required contribution (ARC) under the provisions of GASB Statement No. 45 and under Commonwealth general laws. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For FY14, the Commonwealth's annual OPEB contribution of approximately \$608 million for retiree benefits was less than the ARC. The Commonwealth's annual OPEB cost, the percentage of annual OPEB cost contributed to the SRBT and the net OPEB obligation for the Commonwealth for FY14 are as follows from the valuation calculated as of January 1, 2014 (amounts in millions except percentages):

<u>2014</u>	<u>SRBT</u>
Annual required contribution (ARC).....	\$ 1,251
Interest on net OPEB obligation.....	187
Adjustment to annual required contribution.....	(145)
Annual OPEB cost (AOC).....	1,293
Less: Contributions made*.....	(608)
Increase in net OPEB obligation.....	685
Net OPEB obligation as reported at beginning of year.....	4,147
Net OPEB obligation - end of year.....	\$ 4,832
Percentage of annual OPEB cost contribution.....	47.0%
<u>2013</u>	
Annual OPEB cost.....	\$ 1,286
Percentage of annual OPEB cost contributed.....	45.5%
Net OPEB obligation - end of year.....	\$ 4,147
<u>2012</u>	
Annual OPEB cost.....	\$ 1,313
Percentage of annual OPEB cost contributed.....	42.4%
Net OPEB obligation - end of year.....	\$ 3,446

\*Includes approximately \$32 million in Medicare Part D Retiree Drug Subsidy Payments

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll *	UAAL as a % of Covered Payroll *
Actuarial Valuation as of January 1, 2014...	\$ 511,200	\$ 15,670,200	\$ 15,159,000	3.3%	\$ 5,344,510	283.6%

\* The covered payroll amount approximates the employer payroll

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the SRBT and the annual required contributions of the Commonwealth are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.



*Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Commonwealth and those non-Commonwealth governments that participate in the GIC) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs on a premium basis between the Commonwealth and those non-Commonwealth governments that participate in the GIC to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5%, decreasing to 6.0% for the next eight years, and then decreasing by 0.5% for two years to an ultimate rate of 5.0%.

Administrative expenses are expected to rise 5.0% per annum. The Commonwealth's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis for a period of thirty years, increasing at a rate of 4.5% per year, the same rate as the projected salary increases.

A schedule of funding progress for OPEB is presented as Required Supplementary Information (RSI).

The most recent OPEB actuarial valuation for the Commonwealth is available on the Comptroller's web site at <http://www.mass.gov/osc/publications-and-reports/financial-reports/opeb.html>. There is currently no separate, audited GAAP-basis postemployment benefit plan report available for the Commonwealth.

*MSBA*

The MSBA has a separate OPEB trust fund. The amount of assets and actuarial accrued liabilities related to MSBA's OPEB plan are not material to the Commonwealth (approximately \$2 million) and are therefore, not included in these financial statements.

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**10. LEASES**

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*Primary Government*

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements, which are accounted for as capital leases. Included in the capital assets of the Commonwealth are additions financed by capital leases. For FY14, these additions are approximately \$11 million. Lease agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

The Commonwealth has numerous operating lease agreements for real property and equipment with varying terms. These agreements contain provisions indicating that continuation is subject to appropriation by the Legislature.

The Institutions of Higher Education lease real property and equipment under numerous operating lease agreements for varying terms. The following schedule summarizes future minimum payments under non-cancelable leases for governmental activities and for the Institutions of Higher Education – reported as a business-type activity, for the fiscal year ended June 30, 2014 (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities					Business - Type Activities			
	Capital Leases		Operating Leases	MSBA Operating Leases	Governmental Activities Total	Capital Leases		Operating Leases	Business -Type Activities Total
	Principal	Interest				Principal	Interest		
2015.....	\$ 9,383	\$ 2,095	\$ 179,580	\$ 579	\$ 191,637	\$ 4,852	\$ 497	\$ 25,673	\$ 31,022
2016.....	8,225	1,836	123,757	-	133,818	2,397	373	24,110	26,880
2017.....	7,938	1,772	111,604	-	121,314	1,969	295	20,056	22,320
2018.....	7,514	1,675	98,759	-	107,948	835	279	17,301	18,415
2019.....	3,517	785	79,321	-	83,623	586	228	133,912	134,726
2020 - 2024.....	15,147	3,384	141,934	-	160,465	2,379	770	6,170	9,319
2025 - 2029.....	4,144	926	65,249	-	70,319	1,511	116	1,555	3,182
2030 - 2034.....	10	2	47,823	-	47,835	-	-	-	-
2034 - 2038.....	-	-	6,399	-	6,399	-	-	-	-
2040 - 2044.....	-	-	6,316	-	6,316	-	-	-	-
Total lease obligations.....	55,878	12,475	860,742	579	929,674	14,529	2,558	228,777	245,864
Less: current portion.....	(9,383)	(2,095)	(179,580)	(579)	(191,637)	(4,852)	(497)	(25,673)	(31,022)
Long - term lease obligations....	\$ 46,495	\$ 10,380	\$ 681,162	\$ -	\$ 738,037	\$ 9,677	\$ 2,061	\$ 203,104	\$ 214,842

Capital assets acquired under capital lease (amounts in thousands):

Asset type:	Primary Government	
	Governmental Activities	Business-type Activities
Buildings.....	\$ -	\$ 12,298
Machinery and equipment.....	71,934	70,682
Total assets.....	71,934	82,980
Less: accumulated depreciation.....	(15,988)	(67,236)
Total.....	\$ 55,946	\$ 15,744

## 11. COMMITMENTS

### A. PRIMARY GOVERNMENT

The Commonwealth continues to guarantee certain Massachusetts Bay Transportation Authority (MBTA) debt outstanding at June 30, 2014, totaling approximately \$297 million.

The MBTA's Forward Funding legislation of 1999 provides for the MBTA to issue general obligation, revenue or other debt secured by a pledge or conveyance of all or a portion of revenues, receipts or other assets or funds of the MBTA. Accordingly, all MBTA debt issued after this legislation is not backed by the full faith and credit of the Commonwealth.

Additional commitments of the Commonwealth remain for the University of Massachusetts Building Authority and the Massachusetts State College Building Authority. As of June 30, 2014, the University of Massachusetts Building Authority has approximately \$2.478 billion, of outstanding debt, of which approximately \$126 million is guaranteed by the Commonwealth. The Massachusetts State College Building Authority has approximately \$1.031 billion of outstanding debt, of which approximately \$32 million is guaranteed by the Commonwealth.

### B. SALTONSTALL BUILDING

The Massachusetts Development Finance Agency (MDFA) was authorized in legislation to undertake redevelopment of the Saltonstall State Office Building (Building) and its surrounding area. Under the provisions of MDFA's bond authorization,

the Building is to be leased by the MDFA for a lease term of up to 50 years with extension terms permitted for an aggregate 30 more years. The MDFA renovated the Building and leased half of it back to the Commonwealth for office space and related parking for a comparable lease term. The remainder of the Building and surrounding area has been redeveloped as private office space, housing and retail establishments. The Commonwealth is obligated for future lease payments for space it rents.

However, this obligation is not a general obligation or a pledge of credit of the Commonwealth. Though MDFA's bonds are revenue obligations, with pledges of the public and private lease payments, the Commonwealth's lease payments are due upon occupancy and are subject to annual appropriation.

### **C. OTHER CONSTRUCTION COMMITMENTS**

At June 30, 2014, the Commonwealth had commitments of approximately \$489 million related to ongoing construction projects.

### **D. CONTRACTUAL ASSISTANCE TO AUTHORITIES**

The Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth. These Commonwealth liabilities are classified as: (a) general obligation contract assistance; (b) budgetary contractual assistance liabilities; or (c) contingent liabilities. In addition, the Commonwealth is authorized to pledge its credit in support of scheduled, periodic payments to be made by the Commonwealth under interest rate swaps and other hedging agreements related to bonds or notes of the Commonwealth.

General obligation contract assistance arise from statutory requirements for payments by the Commonwealth to the Massachusetts Water Pollution Abatement Trust, the Massachusetts Department of Transportation and the Massachusetts Development Finance Agency that are used by such entities to pay a portion of the debt service on certain of their outstanding bonds. Such assistance constitutes a pledge of the Commonwealth's credit for which a two-thirds vote of the Legislature is required.

Budgetary contract assistance liabilities do not constitute a pledge of the Commonwealth's credit. Contingent liabilities relate to debt obligations of independent authorities and agencies of the Commonwealth, or payment obligations of such entities on hedging transactions related to such debt, that are expected to be paid without Commonwealth assistance, but for which the Commonwealth has some kind of liability if expected payment sources do not materialize. These contingent liabilities consist of guarantees and similar obligations with respect to which the Commonwealth's credit has been or may be pledged. Under legislation approved by the Governor during FY09, the Commonwealth may pledge its credit to guarantee payment obligations of the Massachusetts Turnpike Authority (succeeded by MassDOT in FY10) with respect to certain hedging transactions or provide financial support subject to annual appropriation and without a pledge of the Commonwealth's credit. The same legislation authorizes the Commonwealth to provide credit support to the Turnpike Authority (succeeded by MassDOT) in connection with the issuance of certain refunding bonds, subject to annual appropriation and without a pledge of the Commonwealth's credit. In addition, the Commonwealth has certain statutorily contemplated payment obligations with respect to which the Commonwealth's credit has not been pledged, as in the case of the Commonwealth's obligation to replenish the capital reserve funds securing certain debt obligations of the Massachusetts Housing Finance Agency and the Commonwealth's obligation to fund debt service, solely from monies otherwise appropriated for the affected institution, owed by certain community colleges and state universities on bonds issued by the Massachusetts Health and Educational Facilities Authority and the Massachusetts State College Building Authority.

### **E. MSBA**

The MSBA has estimated the amount of outstanding Waiting commitments and New Program commitments at June 30, 2014 to be \$23 million and \$1.1 billion, respectively.

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## **12. CONTINGENCIES**

A number of lawsuits are pending or threatened against the Commonwealth, which arise from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings

and other alleged violations of law. The Commonwealth records a liability for those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid. A short term liability of approximately \$33 million is recorded based on; 1) historical payments made and 2) actual claims settled and to be paid prior to June 30, 2015.

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 2014 is estimated to be \$273 million of which approximately \$39 million is expected to be paid during FY15.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally contingent upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits.

Chapter 200A of the Massachusetts General Laws, the Commonwealth's Abandoned Property Law, requires deposit of certain unclaimed assets into a managed Fiduciary Fund. These unclaimed assets are to be remitted to the General Fund each June 30, where it is included as miscellaneous revenue. Amounts remitted during FY14 totaled approximately \$99 million. A portion of accumulated claims since the law's enactment represent a contingency, because claims for refunds can be made by the owners of the property.

*Drug Testing Laboratory disputes.* On August 28, 2012, a chemist formerly employed at the Department of Public Health's drug testing laboratory in Boston admitted to several types of misconduct involving her handling of laboratory samples, which were used in criminal cases. The Governor was informed and ordered the immediate closure of the laboratory. The Governor established a central office to identify individuals who may have been affected by the chemist's alleged malfeasance, which the office has estimated as possibly tens of thousands of criminal drug cases. The Governor also announced that Inspector General Glenn Cunha is conducting an independent assessment of the laboratory's operations. In addition, the Attorney General's Office is conducting a criminal investigation. On December 17, 2012, the former chemist was indicted by a Statewide Grand Jury on 27 charges in connection with altering drug evidence during the testing process and obstructing justice. She was arraigned on December 20, 2012 in Suffolk Superior Court. There likely will be significant, but as yet undetermined, state costs required to investigate and respond to the chemist's alleged malfeasance. Supplemental appropriations totaling \$30 million were approved during fiscal 2013 to create a fund to reimburse agencies and cities for costs associated with investigating and responding to misconduct at the state drug testing laboratory. In addition, there may be costs to defend civil complaints alleging state liability in both state and federal court and for potential judgments. Those additional state costs cannot be fully estimated at this time.

#### **A. TOBACCO SETTLEMENT**

A Master Settlement Agreement (MSA) was executed in November of 1998 between five tobacco companies and 46 states, including the Commonwealth. Several additional tobacco companies have joined the MSA and are bound by its terms. The MSA called for, among other things, annual payments to the states in perpetuity. These payments have been estimated to total more than \$200 billion over the first 25 years, subject to various offsets, reductions and adjustments. In FY14, the Commonwealth received approximately \$282 million or 76.2% of the estimated amounts shown in the MSA. During FY14, 20.0% of tobacco settlement payments, or approximately \$56 million, was deposited in the State Retiree Benefits Trust (SRBT) to fund the Commonwealth's liability for retiree health care, with the remainder deposited in the General Fund. The portion of the annual tobacco settlement payments dedicated to the SRBT will increase by 10.0% per year until it reaches 100% in FY23. While fiscal 2012 legislation required that 30% of fiscal 2015 tobacco settlement proceeds be transferred to SRBT, the fiscal 2015 budget, as approved by the Governor on July 15, 2014, included provisions that temporarily changed the funding source for this transfer for fiscal 2014. Those provisions direct that all tobacco settlement proceeds be deposited in the General Fund, but that unspent debt service appropriations be transferred to the SRBT, up to 30% of the value of fiscal 2015 tobacco settlement proceeds. In the event that unspent debt service appropriations are less than 30% of tobacco settlement proceeds, the provisions require that the difference between unspent debt service appropriations and 30% of tobacco settlement proceeds be transferred from tobacco settlement proceeds to the SRBT. Amounts received in FY14 continued to be less than had previously been projected as payments under the MSA, primarily because the payment amounts are related to national tobacco sales volumes, which have continued to decline since the settlement. The Commonwealth's allocable share of the base amounts payable under the MSA is approximately 4.04%. The Commonwealth's allocable share of the base amounts under the agreement through 2025 is \$8.96 billion, which is subject to adjustments, reductions and

offsets. However, in pending litigation, tobacco manufacturers are claiming that because of certain developments, they are entitled to reduce future payments under the MSA and, from FY06 to the present, certain manufacturers have withheld portions of the payments due to the states. The Commonwealth continues to pursue legal action to compel the payment of these additional funds and to obtain a legal determination that the Commonwealth is immune from any downward adjustment to its settlement payments.

In FY04, a Suffolk Superior Court jury rejected the claims of the Commonwealth's private tobacco attorneys that they should be paid a fee amounting to 25% of the Commonwealth's tobacco settlement money. The jury awarded the plaintiffs 10.5% of the amount the Commonwealth receives under the MSA through 2025, minus an offset for amounts received by the attorneys from the tobacco companies pursuant to an arbitration award. To date, however, the attorneys have received more than 10.5% of what the Commonwealth has received under the MSA. As of June 30, 2014, the Commonwealth owes nothing under the jury award. Whether the Commonwealth will in the future be required to pay any sum on private counsel's claim will depend on the actual payments received by the Commonwealth under the MSA through 2025, as well as on the amounts the attorneys receive through the arbitration payments.

## **B. WORKERS' COMPENSATION AND GROUP INSURANCE LIABILITIES**

Workers' Compensation is managed as part of the course of the Commonwealth's general operations. No separate fund for workers' compensation is provided for in Massachusetts General Laws. Claims for compensation are not separately insured and are funded by the Commonwealth only when incurred. Such losses, including estimates of amounts incurred, but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. The Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances.

Based on actuarial calculations as of June 30 2014, discounted, the Commonwealth is liable for unfunded claims and incurred but not reported claims totaling approximately \$273 million.

Changes in the Commonwealth's liability relating to workers' compensation claims in FY14 and FY13 were (amounts in thousands):

	<u>FY14</u>	<u>FY13</u>
Claim liability, beginning of year.....	\$ 282,694	\$ 276,132
Increase in liability estimate.....	43,035	58,354
Payments and decreases in liability estimate.....	<u>(52,297)</u>	<u>(51,792)</u>
Claims liability, end of year.....	<u>\$ 273,432</u>	<u>\$ 282,694</u>

The Group Insurance Commission (GIC), a department of the Commonwealth, manages health insurance claims of the Commonwealth's active and retired employees. The Commonwealth is self-insured and various health insurance providers provide health care services to the employees. The accrued liability is estimated based on data provided to the GIC by the insurance companies who participate in the self-insured plans.

Based on GIC estimates, the Commonwealth is liable for an amount of \$141 million, net of the employees' reserve of \$98 million. Changes in the Commonwealth's liability relating to Group Insurance claims in FY14 and FY13 were (amounts in thousands):

	<u>FY14</u>	<u>FY13</u>
Claim liability, beginning of year.....	\$ 96,356	\$ 92,176
Increase in liability estimate.....	1,403,590	1,282,661
Payments and decreases in liability estimate.....	<u>(1,402,925)</u>	<u>(1,278,481)</u>
Claims liability, end of year.....	<u>\$ 97,021</u>	<u>\$ 96,356</u>

**C. OTHER CLAIMS & JUDGMENTS**

The following amounts were recognized for claims and judgments in FY14 and FY13 (amounts in thousands):

	FY14	FY13
Unpaid claims, beginning of year.....	\$ 12,831	\$ 40,000
Incurred claims.....	36,137	9,002
Claim payments and reductions.....	<u>(13,265)</u>	<u>(36,171)</u>
Unpaid claims end of year.....	<u>\$ 35,703</u>	<u>\$ 12,831</u>

**D. ENVIRONMENTAL REMEDIATION**

Governmental Accounting Standards Board Statement No 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49) became effective in FY09. GASB 49 provides guidance in estimating and reporting the potential costs of pollution remediation. While GASB 49 does not require the Commonwealth to search for pollution, it does require the Commonwealth to reasonably estimate and report a remediation liability when any of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the Commonwealth is compelled to take action;
- The Commonwealth is found in violation of a pollution-related permit or license;
- The Commonwealth is named, or has evidence that it will be named, as a responsible party by a regulator;
- The Commonwealth is named, or has evidence that it will be named, in a lawsuit to enforce a cleanup;
- The Commonwealth commences or legally obligates itself to conduct remediation activities.

Site investigation, planning and design, cleanup and site monitoring are typical remediation activities underway across the Commonwealth. Several Commonwealth agencies have dedicated programs, rules and regulations that routinely deal with remediation related issues; others become aware of pollution conditions in the fulfillment of their missions. The Commonwealth has the knowledge and expertise to estimate the remediation obligations presented herein based upon prior experience in identifying and funding similar remediation activities.

The standard requires the Commonwealth to calculate pollution remediation liabilities using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. Where the Commonwealth cannot reasonably estimate a pollution remediation obligation it does not report a liability. Several state departments perform continual monitoring of polluted sites. Since the monitoring for such sites is perpetual, undiscounted multi-year costs for such sites have not been estimated. Because of a lack of information about the type and extent of the remediation effort that could be required, no range of outlays for the overall remediation effort for such sites could be developed at this time.

The remediation obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the Commonwealth's obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

During the fiscal year, the Commonwealth had the following activity related to GASB 49 (amounts in thousands):

	Governmental Activities	Business-Type Activities	Government-Wide Total
Environmental remediation liability, beginning of year.....	\$ 230,784	\$ 1,467	\$ 232,251
Expected additional future outlays, changes in liability estimates.	(5,627)	-	(5,627)
FY14 outlays for environmental remediation .....	(7,811)	(20)	(7,831)
Environmental remediation liability, end of year.....	<u>\$ 217,346</u>	<u>\$ 1,447</u>	<u>\$ 218,793</u>

*Massachusetts Military Reservation.* The Commonwealth, through the Executive Office of Energy and Environmental Affairs, the Department of Environmental Protection and the Attorney General's office, were engaged in discussions with federal Natural Resource Trustees, including the United States Army and Air Force, the Department of the Interior and the National Oceanic and Atmospheric Administration and private contractors regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. Federal Trustees and private contractors claim that the Commonwealth and others are liable for natural resource damages due to widespread contamination primarily from past military activities at the Reservation and are responsible for response actions and related clean-up activities. The assessment process for natural resource damages is set out in federal regulations and has not been completed. While no recent comprehensive estimate of natural resource damages and response actions is available, it is expected that the damages and response actions may cost at least tens of millions of dollars. In 2013, the state and federal trustees reopened preliminary discussions per a Trustee Council resolution on a potential settlement framework.

*Closed State Facilities.* The Commonwealth has 17 facilities which contain a total of 235 buildings, mainly in closed state hospitals that may have varying degrees of asbestos, polychlorinated biphenyl (PCB's) and other compounds that are currently in a dormant state. The Commonwealth typically sells these facilities at minimal cost to private developers who assume full responsibility for all cleanup activity. Cost estimates are only performed during the sale process. At this time, the Commonwealth has no estimate of any potential asset that would be developed from these activities that would ready these sites for sale.

#### **E. SOCIAL IMPACT BONDS**

In January 2014, the Commonwealth entered into a "pay for success contract" (Social Impact Bonds) with a nonprofit intermediary organization and a nonprofit social service agency to reduce the re recidivism rate of young men in the juvenile justice system or on probation. The Commonwealth is obligated to make success payments totaling \$27 million through calendar year 2019 and the Commonwealth's obligation to make such payments is a general obligation for which the Commonwealth's full faith and credit are pledged. Payments are only made based upon successful achievement of specified outcomes based on defined performance targets contained in the contract. The total amount of payments backed by the full faith and credit of the Commonwealth under such contracts may not exceed, in the aggregate, \$50 million. As the amount required to be paid as of June 30, 2014 cannot be determined until performance targets have been achieved as determined by an independent evaluator, no liability has been accrued in these financial statements for this contract.

### **13. COMPONENT UNITS AND DETAILS OF DEPARTMENTS AND ENTITIES THAT ARE SEPARATELY AUDITED**

The Commonwealth has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 40 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth. Details of those entities' operations can be found in those entities' basic financial statements and notes to those entities' basic financial statements.

The following entities are presented in the basic financial statements (all having a June 30, 2013 fiscal year end) (entities marked with an \* are not legally separate from the Commonwealth but have separately audited financial statements). Entities that are marked with a § also were not audited in accordance with *Governmental Auditing Standards* as promulgated by the Comptroller General of the United States.

**Entities Audited by KPMG LLP:**

The Massachusetts School Building Authority (MSBA)

The Pension Reserves Investment Trust Fund (PRIT)

\*The Massachusetts State Lottery Commission

The Massachusetts Department of Transportation (MassDOT)

The Massachusetts Clean Water Trust

Commonwealth Health Insurance Connector Authority

\*§The Massachusetts Municipal Depository Trust (MMDT)

\*Community Colleges:

Greenfield Community College

Middlesex Community College

North Shore Community College

**Entities Audited by Other Auditors:**

\*The University of Massachusetts System

\*Community Colleges (in addition to the three Community Colleges audited by KPMG LLP, above):

Berkshire Community College

Bristol Community College

Bunker Hill Community College

Cape Cod Community College

Holyoke Community College

Massasoit Community College

Massachusetts Bay Community College

Mount Wachusett Community College

Northern Essex Community College

Quinsigamond Community College

Roxbury Community College

Springfield Technical Community College

\*State Universities

Bridgewater State University

Fitchburg State University

Framingham State University

Massachusetts College of Art

Massachusetts Maritime Academy

Massachusetts College of Liberal Arts

Salem State University

Westfield State University

Worcester State University

The Massachusetts State College Building Authority

Massachusetts Convention Center Authority (MCCA)

Massachusetts Development Finance Agency (MassDevelopment)

§Massachusetts Technology Park Corporation (MTPC)



Massachusetts Clean Energy Center (CEC)

Massachusetts Housing Partnership (MHP)

**Economic Development Entities (5 separate entities) including:**

- Massachusetts Growth Capital Corporation (MGCC)
- Commonwealth Corporation
- Community Economic Development Assistance Corporation (CEDAC)
- §Massachusetts Life Sciences Center
- Commonwealth Zoological Corporation (Zoo)

**Higher Education Foundations (25 separate entities) including:**

- Berkshire Community College Foundation
- Bristol Community College Foundation
- Bunker Hill Community College Foundation
- Cape Cod Community College Educational Foundation, Inc.
- Greenfield Community College Foundation, Inc.
- Holyoke Community College Foundation
- Massachusetts Bay Community College Foundation, Inc.
- Massasoit Community College Foundation
- Middlesex Community College Foundation, Inc.
- North Shore Community College Foundation
- Springfield Technical Community College Foundation
- The Mount Wachusett Community College Foundation, Inc.
- The Northern Essex Community College Foundation, Inc.
- The Quinsigamond Community College Foundation, Inc.
- The Roxbury Community College Foundation, Inc.

**Bridgewater State University Foundation:**

- The Bridgewater State University Foundation
- The Bridgewater Alumni Association of Bridgewater State University

- Fitchburg State University Foundation, Inc.
- Framingham State University Foundation, Inc.
- Massachusetts College of Art Foundation, Inc.
- Massachusetts College of Liberal Arts Foundation, Inc.
- The Massachusetts Maritime Academy Foundation, Inc.
- Salem State University Foundation:

- The Salem State University Foundation, Inc.
  - Salem State University Assistance Corporation

- Westfield State University Foundation, Inc.
- Worcester State Foundation

The University of Massachusetts System Foundation

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## 14. SUBSEQUENT EVENTS

### ***SUBSEQUENT BOND ISSUANCES***

On July 2, 2014, the Commonwealth issued \$30 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 7. These bonds carry interest rates from 2.00% to 5.00% with the first payment due July 1, 2017 and final maturity on July 1, 2024.

On July 2, 2014, the Commonwealth issued approximately \$28 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 8. These bonds carry interest rates from 2.00% to 5.00% with the first payment due July 1, 2016 and final maturity on July 1, 2023.

On July 10, 2014, the Commonwealth issued \$450 million in General Obligation Bonds, Consolidated Loan of 2014, Series C. These bonds carry interest rates from 3.00% to 5.00% with the first payment due July 1, 2022 and final maturity on July 1, 2031.

On July 17, 2014, the MSBA issued \$300 million 2014 Series A Subordinated Dedicated Sales Tax Bond Anticipation Notes plus approximately \$8.9 million of unamortized premiums for the purpose of funding school construction and renovation projects. Coupons on the Notes range from approximately 1.0% to 5.0% with interest payable at maturity on July 16, 2015.

On August 1, 2014, the Commonwealth issued approximately \$10 million in General Obligation Bonds, Consolidated Loan of 2014 (College Opportunity Bonds), Series A. These bonds carry an interest rate of 0.50% with the first principal payment due on August 1, 2019 and final maturity on August 1, 2034.

On August 5, 2014, the Commonwealth issued \$200 million in General Obligation Bonds, Consolidated Loan of 2014, Series D-1 (Multi-Modal Bonds). These bonds carry variable interest rates equal to the SIFMA Rate plus or minus a stated spread, which is 0.20% or 20 basis points. The Commonwealth will pay interest only starting on September 1, 2014 with the first principal payment due on August 1, 2038 and final maturity on August 1, 2043.

On August 5, 2014, the Commonwealth issued \$200 million in General Obligation Bonds, Consolidated Loan of 2014, Series D-2 (Multi-Modal Bonds). These bonds carry variable interest rates equal to the SIFMA Rate plus or minus a stated spread, which is 0.30% or 30 basis points. The Commonwealth will pay interest only starting on September 1, 2014 with the principal payment and final maturity due on August 1, 2017.

On August 13, 2014, the Commonwealth issued approximately \$44 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 9. These bonds carry interest rates from 2.00% to 5.00% with the first payment due August 1, 2017 and final maturity on August 1, 2024.

On September 24, 2014, the Commonwealth issued approximately \$429 million in General Obligation Refunding Bonds 2014 Series C. These bonds were issued to advance refund approximately \$453 million of various General Obligation Bonds and carry interest rates from 1.25% to 5.00% with final maturity on August 1, 2025. The refunding resulted in reduced debt service principal of approximately \$24 million and a present value savings of approximately \$38 million over the life of the bonds.

On September 24, 2014, the Commonwealth issued \$350 million in General Obligation Bonds, Consolidated Loan of 2014, Series E (Green Bonds). These bonds carry interest rates from 2.00% to 5.00% with the first payment due on September 1, 2019 with final maturity on September 1, 2031.

On October 29, 2014, the Commonwealth issued approximately \$500 million in General Obligation Bonds, Consolidated Loan of 2014, Series F. These bonds carry interest rates from 3.00% to 5.00% with the first payment due November 1, 2023 and final maturity on November 1, 2031.

On October 29, 2014, the Commonwealth issued approximately \$200 million in General Obligation Bonds, Consolidated Loan of 2014, Series G (Federally Taxable). These bonds carry interest rates from 0.25% to 1.85% with the first payment due November 1, 2015 and final maturity on November 1, 2019.

On November 5, 2014, the Commonwealth issued approximately \$30 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 10. These bonds carry interest rates from 1.50% to 5.00% with the first payment due November 1, 2017 and final maturity on November 1, 2024.

On November 5, 2014, the Commonwealth issued approximately \$6 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 11. These bonds carry interest rates from 1.50% to 5.00% with the first payment due November 1, 2016 and final maturity on November 1, 2023.

On December 3, 2014, the Commonwealth issued approximately \$35 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 12. These bonds carry interest rates from 2.00% to 5.00% with the first payment due December 1, 2017 and final maturity on December 1, 2024.

On December 3, 2014, the Commonwealth issued approximately \$5 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 13. These bonds carry interest rates from 2.00% to 5.00% with the first payment due December 1, 2016 and final maturity on December 1, 2023.

On December 10, 2014, the Commonwealth issued approximately \$347 million in Federal Highway Grant Anticipation Notes (Accelerated Bridge Program) 2014 Series A. These notes carry interest rates from 2.00% to 5.00% with the first payment due June 15, 2016 and final maturity on June 15, 2027.

On December 16, 2014, the Commonwealth issued approximately \$100 million in Commonwealth Transportation Fund Revenue Bonds (Accelerated Bridge Program) 2014 Series A. This bond carries an interest rate of 5.00%. The Commonwealth will pay interest only starting on June 1, 2015 with the principal payment due on June 1, 2044.

All debt issues were sold as tax exempt.



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# ***Required Supplementary Information Other Than Management Discussion and Analysis***

(Unaudited)



***Covered Bridge at Governor's Academy - Byfield***

***Schedule of Revenue, Expenditures And Changes In Fund Balances – Statutory Basis – Budget and Actual – General Fund***  
***Explanation of Differences Between Revenues, Expenditures and Other Financing Sources for the General Fund on a Budgetary Basis and GAAP Basis***  
***Notes to Required Supplementary Information – Budgetary Reporting***  
***Required Pension Schedules***

# Schedule of Revenues, Expenditures and Changes In Fund Balances - Statutory Basis - Budget and Actual

## General Fund

Fiscal Year Ended June 30, 2014

(Amounts in thousands )

	Original Budget	Final Budget	Actual	Variance
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
<b>Revenues:</b>				
Taxes.....	\$ 20,077,700	\$ 20,077,700	\$ 20,540,602	\$ 462,902
Assessments.....	458,634	458,634	439,998	(18,636)
Federal grants and reimbursements.....	8,777,590	8,777,590	8,366,140	(411,450)
Tobacco settlement revenue.....	253,628	253,628	282,049	28,421
Departmental.....	2,069,011	2,069,011	2,511,712	442,701
Miscellaneous.....	256,544	256,544	262,227	5,683
<b>Total revenues.....</b>	<b>31,893,107</b>	<b>31,893,107</b>	<b>32,402,728</b>	<b>509,621</b>
<b>Other financing sources:</b>				
Fringe benefit cost recovery.....	294,051	294,051	310,559	16,508
Lottery reimbursements.....	91,216	91,216	95,891	4,675
Lottery distributions.....	946,917	946,917	921,730	(25,187)
Operating transfers in.....	249,706	249,706	241,225	(8,481)
Stabilization transfer.....	508,000	508,000	1,231,336	723,336
<b>Total other financing sources.....</b>	<b>2,089,890</b>	<b>2,089,890</b>	<b>2,800,741</b>	<b>710,851</b>
<b>Total revenues and other financing sources.....</b>	<b>33,982,997</b>	<b>33,982,997</b>	<b>35,203,469</b>	<b>1,220,472</b>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
<b>Expenditures:</b>				
Legislature.....	74,274	74,274	56,299	17,975
Judiciary.....	780,288	822,826	814,129	8,697
Inspector General.....	3,745	6,251	6,162	89
Governor and Lieutenant Governor.....	9,024	9,338	5,144	4,194
Secretary of the Commonwealth.....	44,490	44,932	44,339	593
Treasurer and Receiver-General.....	1,071,200	236,874	203,358	33,516
Auditor of the Commonwealth.....	17,624	17,624	17,536	88
Attorney General.....	40,775	44,678	43,028	1,650
Ethics Commission.....	1,922	1,922	1,904	18
District Attorney.....	102,648	106,090	105,962	128
Office of Campaign & Political Finance.....	1,408	1,408	1,370	38
Sheriff's Departments.....	482,822	567,569	552,978	14,591
Disabled Persons Protection Commission.....	2,413	2,413	2,412	1
Board of Library Commissioners.....	22,241	22,241	22,184	57
Comptroller.....	8,544	13,249	12,811	438
Administration and finance.....	2,812,963	2,240,131	2,128,733	111,398
Energy and environmental affairs.....	184,115	210,220	202,266	7,954
Health and human services.....	16,904,766	5,216,338	5,070,536	145,802
Executive office of education.....	6,458,160	2,111,262	2,077,838	33,424
Center for Health Information and Analysis.....	26,668	32,193	23,706	8,487
Public safety and homeland security.....	940,357	1,088,751	1,058,775	29,976
Housing and economic development.....	443,124	522,176	499,814	22,362
Labor and workforce development.....	50,312	71,724	41,437	30,287
Direct local aid.....	-	5,294,063	5,292,467	1,596
Medicaid.....	-	12,116,397	11,900,776	215,621
Post employment benefits.....	-	2,050,361	2,050,361	-
Debt service:				
Principal retirement.....	643,059	649,277	631,610	17,667
Interest and fiscal charges.....	436,371	436,371	428,601	7,770
<b>Total expenditures.....</b>	<b>31,563,312</b>	<b>34,010,953</b>	<b>33,296,536</b>	<b>714,417</b>
<b>Other financing uses:</b>				
Operating transfers out.....	2,268,439	8,922	76,727	(67,805)
State Retiree Benefits transfer.....	-	-	29,619	(29,619)
State Pension transfer.....	-	-	2,273	(2,273)
Commonwealth care transfer.....	340,079	340,079	390,079	(50,000)
Medical assistance transfer.....	394,000	620,025	395,025	225,000
Stabilization transfer.....	364,700	401,700	1,231,336	(829,636)
Delivery system transformation initiatives trust transfer.....	93,449	93,449	70,732	22,717
Other fund deficit support.....	-	-	148,019	(148,019)
<b>Total other financing uses.....</b>	<b>3,460,667</b>	<b>1,464,175</b>	<b>2,343,810</b>	<b>(879,635)</b>
<b>Total expenditures and other financing uses.....</b>	<b>35,023,979</b>	<b>35,475,128</b>	<b>35,640,346</b>	<b>(165,218)</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>807,095</b>	<b>(1,492,131)</b>	<b>(436,877)</b>	<b>1,055,254</b>
Fund balances (deficit) at beginning of year.....	1,839,670	1,839,670	1,839,670	-
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 2,646,765</b>	<b>\$ 347,539</b>	<b>\$ 1,402,793</b>	<b>\$ 1,055,254</b>

See Independent Auditor's Report and notes to required supplementary information

**Explanation of Differences between Revenues, Expenditures and Other Financing Sources (Uses)  
for the General Fund on a Budgetary Basis and GAAP Basis (in thousands):**

	<u>General</u>
<b>REVENUES</b>	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules.....	\$ 32,402,728
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Tax revenue.....	127,302
Federal reimbursements and other receivables.....	228,192
Reclassifications:	
Higher education revenue is reclassified for GAAP reporting.....	(166,665)
Inflows from component units and other miscellaneous financing sources.....	17
<b>Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 32,591,574</u></b>
<b>EXPENDITURES</b>	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule.....	\$ 33,296,536
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Medicaid payments.....	255,600
Compensated absences and other accrued liabilities.....	28,589
Reclassifications:	
State Retiree Benefits Trust Fund transfers are reclassified to expenditures for GAAP reporting.....	4,546
Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund.....	(1,060,211)
Higher education expenditures are reclassified for GAAP reporting.....	(1,225,327)
<b>Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 31,299,733</u></b>
<b>OTHER FINANCING SOURCES</b>	
Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule.....	\$ 2,800,741
Adjustments:	
Consolidation of transfers between funds.....	(1,277,477)
Inflows from component units and other miscellaneous financing sources.....	10,571
<b>Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 1,533,835</u></b>
<b>OTHER FINANCING USES</b>	
Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule.....	\$ 2,343,810
Adjustments and Reclassifications:	
Consolidation of transfers between funds.....	(1,234,814)
Budgetary higher education amounts are reclassified to transfers under the modified accrual basis.....	1,058,662
State Retiree Benefits Trust Fund transfers are reclassified to expenditures for GAAP reporting.....	(4,546)
Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund.....	1,060,211
<b>Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 3,223,323</u></b>

See Independent Auditor's Report and notes to required supplementary information

**Note to Required Supplementary Information – Budgetary Reporting**

The Commonwealth passes a combined budget for all budgeted operations. State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act. Generally, expenditures may not exceed the level of spending authorized for an appropriation account.

Before signing the appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriation acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds which effectively reduce the account's expenditure budget.

The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits, pension costs, and certain other costs which are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Also, these financial statements portray fund accounting with gross inflows and outflows, thus creating a difference to separately published budget documents, which eliminate some interfund activity. In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds.

The FY04 General Appropriation Act (Chapter 26, Section 167 of the Acts of 2003), amended section 9C, directing the Governor to notify the Legislature in writing as to the reasons for and the effect of any reductions in spending. Alternatively, the Governor may propose specific additional revenues to fund the deficiency. The Governor may also propose to transfer funds from the Stabilization Fund to cure the deficiency. This proposal must be delivered to the Legislature 15 days before any reductions take effect.



The table below summarizes budgetary activity for FY14 (amounts in thousands):

	<u>Revenues</u>	<u>Expenditures</u>
General Appropriation Act, Chapter 38 of the Acts of 2013:		
Direct appropriations .....	\$ 33,858,500	\$ 33,526,507
Estimated revenues, transfers, retained revenue appropriations, and appropriations carried forward from FY2013 .....	<u>-</u>	<u>1,239,494</u>
Total original budget .....	<u>33,858,500</u>	<u>34,766,001</u>
Supplemental Acts of 2013:		
Chapter 118 .....	-	175,521
Supplemental Acts of 2014:		
Chapter 52 .....	-	258,911
Chapter 62 .....	-	450
Chapter 70 .....	-	600
Chapter 119 .....	-	144,679
Chapter 295 .....	-	1,853
Chapter 359 .....	<u>-</u>	<u>38,000</u>
Total budgeted revenues and expenditures per Legislative action .....	-	620,014
Plus: Pension contributions and revenue authorized outside of General Appropriation Act, and other transfers of revenue and spending .....	<u>2,033,983</u>	<u>2,109,723</u>
Budgeted revenues and expenditures as reported .....	<u><u>\$ 35,892,483</u></u>	<u><u>\$ 37,495,738</u></u>

As the budget is not passed taking into account the structure of funds, but of appropriations, reports contained within the Commonwealth's MMARS accounting system demonstrate budgetary compliance by appropriation. Those reports are available upon request at the Office of the State Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660.

## Schedule of Funding Progress

(Amounts in thousands except for percentages)

### Pension Funding Progress for the last six fiscal years

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
<b>State Employees' Retirement System</b>						
Actuarial Valuation as of January 1, 2014....	\$ 21,581,133	\$ 30,679,600	\$ 9,098,467	70.3%	\$ 5,344,510	170.2%
Actuarial Valuation as of January 1, 2013....	20,317,389	29,385,442	9,068,053	69.1%	5,183,195	175.0%
Actuarial Valuation as of January 1, 2012....	20,507,644	27,784,731	7,277,087	73.8%	4,922,388	147.8%
Actuarial Valuation as of January 1, 2011....	21,244,900	26,224,776	4,979,876	81.0%	4,808,250	103.6%
Actuarial Valuation as of January 1, 2010....	19,019,062	24,862,421	5,843,359	76.5%	4,711,563	124.0%
Actuarial Valuation as of January 1, 2009....	16,992,214	23,723,240	6,731,026	71.6%	4,712,655	142.8%
<b>Teachers' Retirement System</b>						
Actuarial Valuation as of January 1, 2014....	\$ 22,940,196	\$ 40,741,695	\$ 17,801,499	56.3%	\$ 5,962,650	298.6%
Actuarial Valuation as of January 1, 2013....	21,787,470	39,135,218	17,347,748	55.7%	5,783,294	300.0%
Actuarial Valuation as of January 1, 2012....	22,141,475	36,483,027	14,341,552	60.7%	5,655,353	253.6%
Actuarial Valuation as of January 1, 2011....	23,117,952	34,890,991	11,773,039	66.3%	5,558,311	211.8%
Actuarial Valuation as of January 1, 2010....	21,262,462	33,738,966	12,476,504	63.0%	5,509,698	226.4%
Actuarial Valuation as of January 1, 2009....	18,927,731	32,543,782	13,616,051	58.2%	5,389,895	252.6%

For a complete analysis of the Commonwealth's actuarial valuation report, please go to <http://www.mass.gov/perac/valuation/2014commonwealth.pdf>. Alternatively, copies of the Commonwealth's actuarial valuation reports may be obtained by contacting the Massachusetts Public Employee Retirement Administration Commission, 5 Middlesex Avenue, Suite 304, Somerville, MA 02145. Telephone number: 617-666-4446.

### State Retiree Benefits Trust Funding Progress for the last six fiscal years

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Actuarial Valuation as of January 1, 2014....	\$ 511,200	\$ 15,670,200	\$ 15,159,000	3.3%	\$ 5,344,510	283.6%
Actuarial Valuation as of January 1, 2013....	406,700	15,784,100	15,377,400	2.6%	5,183,195	296.7%
Actuarial Valuation as of January 1, 2012....	360,500	16,659,400	16,298,900	2.2%	4,922,388	331.1%
Actuarial Valuation as of January 1, 2011....	350,500	16,568,600	16,218,100	2.1%	4,808,250	337.3%
Actuarial Valuation as of January 1, 2010....	309,800	15,166,300	14,856,500	2.0%	4,711,563	315.3%
Actuarial Valuation as of January 1, 2009....	273,500	15,305,100	15,031,600	1.8%	4,712,655	319.0%

For a complete analysis of the Commonwealth's actuarial valuation report, please contact the Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, MA 02108.

See Independent Auditor's Report

## Schedule of Employer and Non-Employer Contributions

(Amounts in thousands except for percentages)

Retirement System	Fiscal Year Ended June 30,	Actuarially Determined Contribution	Amount Contributed	Percentage Contributed	Covered Employee Payroll	Contribution as a Percentage of Payroll
State Employees' Retirement System	2014	\$ 718,909	\$ 573,428	79.8%	\$ 5,344,510	10.7%
	2013	699,962	545,453	77.9%	5,183,195	10.5%
	2012	620,274	518,918	83.7%	4,922,388	10.5%
	2011	471,096	431,166	91.5%	4,808,250	9.0%
	2010	646,932	410,682	63.5%	4,711,563	8.7%
	2009	697,340	397,482	57.0%	4,712,655	8.4%
	2008	369,866	460,788	124.6%	4,574,233	10.1%
	2007	432,219	435,610	100.8%	4,391,891	9.9%
	2006	445,527	425,751	95.6%	4,200,577	10.1%
	2005	390,867	415,296	106.2%	3,967,000	10.5%
Teachers' Retirement System	2014	\$ 1,158,461	\$ 935,936	80.8%	\$ 5,962,650	15.7%
	2013	1,104,486	891,580	80.7%	5,783,294	15.4%
	2012	941,918	849,496	90.2%	5,655,353	15.0%
	2011	767,960	855,201	111.4%	5,558,311	15.4%
	2010	1,106,052	690,397	62.4%	5,509,698	12.5%
	2009	1,149,629	781,026	67.9%	5,389,895	14.5%
	2008	749,853	809,000	107.9%	5,163,498	15.7%
	2007	763,798	747,000	97.8%	4,969,092	15.0%
	2006	779,158	727,000	93.3%	4,819,325	15.1%
	2005	699,722	682,000	97.5%	4,643,000	14.7%

The following table shows the Commonwealth's annual required contribution (ARC) and percent of the ARC funded for the State Retiree Benefits Trust (SRBT) for each of the past six fiscal years.

	Annual Required Contribution	Percentage Contributed
2014	\$ 1,251,000	48.6%
2013	1,251,000	46.8%
2012	1,286,000	43.4%
2011	1,276,000	43.7%
2010	1,163,000	32.0%
2009	1,222,000	28.8%

See Independent Auditor's Report

**Schedule of Changes in the State Employees' Retirement  
System (SERS) Net Pension Liability and Related Ratios**

(Amounts in thousands, except for percentages)

	2014
Total pension liability, July 1.....	\$ 29,918,000
Service cost.....	677,845
Interest.....	2,320,439
Differences between expected and actual experience.....	161,731
Changes of assumptions.....	102,000
Benefit payments, including refunds of member contributions.....	(1,825,015)
Net change in total pension liability.....	1,437,000
Total pension liability, June 30 (a).....	\$ 31,355,000
Plan fiduciary net position, July 1.....	\$ 21,084,958
Contributions:	
Employers.....	593,932
Plan members.....	501,106
Other additions.....	49,115
Total contributions.....	1,144,153
Net investment income.....	3,562,856
Benefit payments, including refunds of plan member contributions.....	(1,825,015)
Administrative expense.....	(36,057)
Net change in plan fiduciary net position.....	2,845,937
Plan fiduciary net position, June 30 (b).....	\$ 23,930,895
Plan net pension liability/(asset) - June 30 (a) - (b).....	\$ 7,424,105
Plan fiduciary net position as a percentage of the total pension liability.....	76.3%
Covered employee payroll.....	\$ 5,344,510
Net pension liability/(asset) as a percentage of covered employee payroll.....	138.9%

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditor's Report

## NOTES TO THE SERS SCHEDULE

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Valuation date..... January 1, 2014

Methods and assumptions:

Inflation..... 3.0%

Salary increases..... 3.5% for 2013, 3.75% for 2014 and 4.0% for 2015. After 2015, salary increase are from 4.0% to 9.0%, depending on group and years of service.

Investment rate of return..... 8.0%

Retirement age..... The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 2 and Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

Mortality..... Pre-retirement mortality reflects RP-2000 Employees table projected 20 years with Scale AA (gender distinct)  
Post-retirement mortality reflects RP-2000 Healthy Annuitant table projected 15 years with Scale AA (gender distinct)  
For disabled members, the mortality rate is assumed to be in accordance with the RP-2000 Table projected 5 years with Scale AA (gender distinct) set forward 3 years for males.

Other information..... Chapter 176 of the Acts of 2011, *An Act Providing for Pension Reform and Benefit Modernization*, among other things, increased the normal retirement age by two years, increased the age (early retirement) reduction factor for ages below the maximum age and increased the period for determining a member's average annual compensation (from 3 years to 5 years) for all members hired after April 1, 2012.

See Independent Auditor's Report

**Schedule of Changes in the Massachusetts Teachers' Retirement  
System (MTRS) Net Pension Liability and Related Ratios**

(Amounts in thousands, except for percentages)

	2014
Total pension liability, July 1.....	\$ 39,952,000
Service cost.....	747,049
Interest.....	3,094,091
Differences between expected and actual experience.....	85,597
Changes of assumptions.....	108,000
Benefit payments, including refunds of member contributions.....	(2,551,737)
Net change in total pension liability.....	1,483,000
Total pension liability, June 30 (a).....	\$ 41,435,000
Plan fiduciary net position, July 1.....	\$ 22,697,302
Contributions:	
Employers.....	1,035,418
Plan members.....	653,328
Other additions.....	73,659
Total contributions.....	1,762,405
Net investment income.....	3,771,883
Benefit payments, including refunds of plan member contributions.....	(2,551,737)
Administrative expense.....	(41,675)
Other changes.....	(99,532)
Net change in plan fiduciary net position.....	2,841,344
Plan fiduciary net position, June 30 (b).....	\$ 25,538,646
Plan net pension liability/(asset) - June 30 (a) - (b).....	\$ 15,896,354
Plan fiduciary net position as a percentage of the total pension liability.....	61.6%
Covered employee payroll.....	\$ 5,962,650
Net pension liability/(asset) as a percentage of covered employee payroll.....	266.6%

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditor's Report

## NOTES TO THE MTRS SCHEDULE

Valuation date..... January 1, 2014

Methods and assumptions:

Inflation..... 3.0%  
 Salary increases..... 4.0% to 7.5% depending on length of service  
 Investment rate of return..... 8.0%  
 Retirement age..... The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 2 and Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

Mortality..... Pre-retirement mortality reflects RP-2000 Employees table adjusted for "white-collar" employment projected 20 years with Scale AA (gender distinct)

Post-retirement mortality reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 15 years with Scale AA (gender distinct)

For disabled members, post-retirement mortality reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 15 years with Scale AA (gender distinct)

Other information..... Chapter 176 of the Acts of 2011, *An Act Providing for Pension Reform and Benefit Modernization*, among other things, increased the normal retirement age by two years, increased the age (early retirement) reduction factor for ages below the maximum age and increased the period for determining a member's average annual compensation (from 3 years to 5 years) for all members hired after April 1, 2012.

See Independent Auditor's Report

## Schedule of Investment Returns

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	2014
Annual money-weighted rate of returnnet of investment expense - SERS.....	17.13%
Annual money-weighted rate of returnnet of investment expense - MTRS.....	17.12%

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditor's Report



# *Other Supplementary Information*



## *Charlemont Bissell Bridge*

*Combining Balance Sheet – Nonmajor Governmental Funds*

*Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds*

*Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Budgetary Basis – Budget  
and Actual – Other Budgeted Nonmajor Governmental Funds*

*Combining Budget to GAAP Reconciliation – Other Budgeted Nonmajor Governmental Funds*

*Combining Statement of Net Position Available for Pension Benefits*

*Combining Statement of Changes in Net Position Available for Pension Benefits*

*Combining Statement of Net Position Held in Trust for Pool Participants*

*Combining Statement of Changes in Net Position Held in Trust for Pool Participants*

*Combining Statement of Changes in Assets and Liabilities – Agency Funds*

*Combining Statement of Net Position – Nonmajor Component Units*

*Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Component Units*

# Combining Balance Sheet

## Other Governmental Funds

June 30, 2014

(Amounts in thousands)

	Special Revenue							
	Commonwealth Transportation	Federal Grants	Universal Health Care	Environmental	Massachusetts Tourism	Local Capital Projects	Local Aid Stabilization	Manufacturing
<b>ASSETS</b>								
Cash and short-term investments.....	\$ 608	\$ -	\$ 272,094	\$ 21,086	\$ 1,376	\$ 21,250	\$ -	\$ 30
Cash with fiscal agent.....	14,384	-	-	-	-	-	-	-
Receivables, net of allowance for uncollectibles:								
Taxes.....	64,125	-	14,251	84	5,242	-	-	-
Due from federal government.....	-	324,277	-	735	-	-	-	-
Loans receivable.....	-	-	-	-	-	-	-	-
Other receivables.....	2,372	-	154,860	199	-	-	-	-
Due from other funds.....	-	-	-	-	-	-	-	-
<b>Total assets.....</b>	<b>\$ 81,489</b>	<b>\$ 324,277</b>	<b>\$ 441,205</b>	<b>\$ 22,104</b>	<b>\$ 6,618</b>	<b>\$ 21,250</b>	<b>\$ -</b>	<b>\$ 30</b>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Accounts payable.....	\$ 608	\$ 208,942	\$ 14,340	\$ 895	\$ 1,279	\$ -	\$ 1,143	\$ 30
Accrued payroll.....	-	10,767	297	359	77	-	-	-
Tax refunds and abatements payable.....	-	-	-	-	-	-	-	-
Due to other funds.....	-	25,716	-	-	-	-	7,182	-
Due to component units.....	5,602	-	34,174	-	-	-	-	-
Other accrued liabilities.....	-	-	78,462	-	-	-	-	-
<b>Total liabilities.....</b>	<b>6,210</b>	<b>245,425</b>	<b>127,273</b>	<b>1,254</b>	<b>1,356</b>	<b>-</b>	<b>8,325</b>	<b>30</b>
Deferred inflows of resources.....	-	-	61,136	-	-	-	-	-
<b>Total liabilities and deferred inflows of resources.....</b>	<b>6,210</b>	<b>245,425</b>	<b>188,409</b>	<b>1,254</b>	<b>1,356</b>	<b>-</b>	<b>8,325</b>	<b>30</b>
Fund balances:								
Nonspendable.....	-	-	-	-	-	-	-	-
Restricted.....	-	78,852	-	-	-	-	-	-
Committed.....	75,279	-	252,796	20,850	5,262	-	-	-
Assigned.....	-	-	-	-	-	21,250	-	-
Unassigned (deficits).....	-	-	-	-	-	-	(8,325)	-
<b>Fund balances (deficits).....</b>	<b>75,279</b>	<b>78,852</b>	<b>252,796</b>	<b>20,850</b>	<b>5,262</b>	<b>21,250</b>	<b>(8,325)</b>	<b>-</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 81,489</b>	<b>\$ 324,277</b>	<b>\$ 441,205</b>	<b>\$ 22,104</b>	<b>\$ 6,618</b>	<b>\$ 21,250</b>	<b>\$ -</b>	<b>\$ 30</b>

See Independent Auditor's Report

Special Revenue									
Community College	Gaming Control	Dam and Seawall Repair or Removal	MBTA State & Local Contribution	Community Preservation Trust	Health Insurance Portability and Accountability Act	Division of Professional Licensure	Enhanced 911	Healthcare Workforce Transformation Trust	Health Information Technology Trust
\$ 778	\$ 23,407	\$ 19,705	\$ 74,513	\$ 23,902	\$ 8,702	\$ 2,949	\$ 122,876	\$ 18,552	\$ 5,629
-	-	-	-	-	-	-	-	-	-
-	-	-	55,068	-	-	-	-	-	-
-	-	-	-	-	267	-	-	-	10,192
-	-	1,116	-	-	-	-	-	-	-
-	72	-	-	11,390	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<b>\$ 778</b>	<b>\$ 23,479</b>	<b>\$ 20,821</b>	<b>\$ 129,581</b>	<b>\$ 35,292</b>	<b>\$ 8,969</b>	<b>\$ 2,949</b>	<b>\$ 122,876</b>	<b>\$ 18,552</b>	<b>\$ 15,821</b>
\$ -	\$ 1,531	\$ 56	\$ 41,968	\$ 36,136	\$ 425	\$ 119	\$ 17,565	\$ 642	\$ 9,810
758	160	-	-	-	6	300	142	3	9
-	-	-	174	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	87,439	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<b>758</b>	<b>1,691</b>	<b>56</b>	<b>129,581</b>	<b>36,136</b>	<b>431</b>	<b>419</b>	<b>17,707</b>	<b>645</b>	<b>9,819</b>
-	-	-	-	-	-	-	-	-	-
<b>758</b>	<b>1,691</b>	<b>56</b>	<b>129,581</b>	<b>36,136</b>	<b>431</b>	<b>419</b>	<b>17,707</b>	<b>645</b>	<b>9,819</b>
-	-	1,116	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
20	21,788	19,649	-	-	8,538	2,530	105,169	17,907	6,002
-	-	-	-	-	-	-	-	-	-
-	-	-	-	(844)	-	-	-	-	-
<b>20</b>	<b>21,788</b>	<b>20,765</b>	<b>-</b>	<b>(844)</b>	<b>8,538</b>	<b>2,530</b>	<b>105,169</b>	<b>17,907</b>	<b>6,002</b>
<b>\$ 778</b>	<b>\$ 23,479</b>	<b>\$ 20,821</b>	<b>\$ 129,581</b>	<b>\$ 35,292</b>	<b>\$ 8,969</b>	<b>\$ 2,949</b>	<b>\$ 122,876</b>	<b>\$ 18,552</b>	<b>\$ 15,821</b>

continued

# Combining Balance Sheet

## Other Governmental Funds

June 30, 2014

(Amounts in thousands)

	Special Revenue						
	Build America Bonds Subsidy Trust	Housing Preservation and Stabilization	Regional Greenhouse Gas Initiative (RGGI) Auction Trust	Workforce Training Trust	Child Support Enforcement	Department of Industrial Accidents	Convention and Exhibition Center
<b>ASSETS</b>							
Cash and short-term investments.....	\$ 8,426	\$ 9,811	\$ 45,345	\$ 36,401	\$ 38,544	\$ 7,534	\$ 41,578
Cash with fiscal agent.....	-	-	-	-	-	-	76,542
Receivables, net of allowance for uncollectibles:							
Taxes.....	-	-	-	6,048	-	-	14,508
Due from federal government.....	-	-	-	-	3,956	-	-
Loans receivable.....	-	-	-	-	-	-	-
Other receivables.....	-	-	-	-	3,379	18,238	-
Due from other funds.....	-	-	-	-	-	-	-
<b>Total assets.....</b>	<b>\$ 8,426</b>	<b>\$ 9,811</b>	<b>\$ 45,345</b>	<b>\$ 42,449</b>	<b>\$ 45,879</b>	<b>\$ 25,772</b>	<b>\$ 132,628</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable.....	\$ 57	\$ 898	\$ 4,617	\$ 11,862	\$ 4,436	\$ -	\$ 14,917
Accrued payroll.....	-	-	66	17	310	-	-
Tax refunds and abatements payable.....	-	-	-	-	-	-	-
Due to other funds.....	-	-	-	-	-	-	-
Due to component units.....	-	-	-	-	-	-	-
Other accrued liabilities.....	-	-	-	-	-	-	-
<b>Total liabilities.....</b>	<b>57</b>	<b>898</b>	<b>4,683</b>	<b>11,879</b>	<b>4,746</b>	<b>-</b>	<b>14,917</b>
Deferred inflows of resources.....	-	-	-	-	-	-	-
<b>Total liabilities and deferred inflows of resources.....</b>	<b>57</b>	<b>898</b>	<b>4,683</b>	<b>11,879</b>	<b>4,746</b>	<b>-</b>	<b>14,917</b>
Fund balance:							
Nonspendable.....	-	-	-	-	-	-	-
Restricted.....	8,369	-	-	-	41,133	-	-
Committed.....	-	8,913	40,662	30,570	-	25,772	117,711
Assigned.....	-	-	-	-	-	-	-
Unassigned (deficits).....	-	-	-	-	-	-	-
<b>Fund balances (deficits).....</b>	<b>8,369</b>	<b>8,913</b>	<b>40,662</b>	<b>30,570</b>	<b>41,133</b>	<b>25,772</b>	<b>117,711</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 8,426</b>	<b>\$ 9,811</b>	<b>\$ 45,345</b>	<b>\$ 42,449</b>	<b>\$ 45,879</b>	<b>\$ 25,772</b>	<b>\$ 132,628</b>

See Independent Auditor's Report

Special Revenue				Capital Projects					
Grant Anticipation Note Trust	Expendable Trust	Other	Debt Service	General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Federal Highway Construction Program	Other	Total
\$ 14,389	\$ 523,630	\$ 48,092	\$ -	\$ -	\$ 8,393	\$ -	\$ 9,555	\$ -	\$ 1,409,155
204,494	-	-	11,951	-	-	-	-	-	307,371
-	-	-	-	-	-	-	-	-	159,326
80,348	840	400	-	4,717	-	-	142	-	425,874
-	914	-	-	-	-	-	-	-	2,030
-	6,968	84	-	-	-	-	18	-	197,580
-	-	-	-	-	-	-	80,348	-	80,348
<b>\$ 299,231</b>	<b>\$ 532,352</b>	<b>\$ 48,576</b>	<b>\$ 11,951</b>	<b>\$ 4,717</b>	<b>\$ 8,393</b>	<b>\$ -</b>	<b>\$ 90,063</b>	<b>\$ -</b>	<b>\$ 2,581,684</b>
\$ -	\$ 52,895	\$ 7,732	\$ -	\$ 293,847	\$ -	\$ -	\$ -	\$ 1	\$ 726,751
-	2,822	1,096	-	2,479	-	-	-	-	19,668
-	-	-	-	-	-	-	-	-	174
80,348	-	-	-	248,531	-	251,633	-	164	613,574
-	-	-	-	16,629	-	232,433	96,877	-	473,154
-	-	-	-	-	-	-	-	-	78,462
<b>80,348</b>	<b>55,717</b>	<b>8,828</b>	<b>-</b>	<b>561,486</b>	<b>-</b>	<b>484,066</b>	<b>96,877</b>	<b>165</b>	<b>1,911,783</b>
-	-	-	-	-	-	-	-	-	61,136
<b>80,348</b>	<b>55,717</b>	<b>8,828</b>	<b>-</b>	<b>561,486</b>	<b>-</b>	<b>484,066</b>	<b>96,877</b>	<b>165</b>	<b>1,972,919</b>
-	-	-	-	-	-	-	-	-	1,116
218,883	317,757	-	11,951	-	-	-	-	-	676,945
-	158,878	74,781	-	-	8,393	-	-	-	1,001,470
-	-	-	-	-	-	-	-	-	21,250
-	-	(35,033)	-	(556,769)	-	(484,066)	(6,814)	(165)	(1,092,016)
<b>218,883</b>	<b>476,635</b>	<b>39,748</b>	<b>11,951</b>	<b>(556,769)</b>	<b>8,393</b>	<b>(484,066)</b>	<b>(6,814)</b>	<b>(165)</b>	<b>608,765</b>
<b>\$ 299,231</b>	<b>\$ 532,352</b>	<b>\$ 48,576</b>	<b>\$ 11,951</b>	<b>\$ 4,717</b>	<b>\$ 8,393</b>	<b>\$ -</b>	<b>\$ 90,063</b>	<b>\$ -</b>	<b>\$ 2,581,684</b>

# Combining Statement of Revenues, Expenditures and Changes in Fund Balances

## Other Governmental Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Special Revenue							
	Commonwealth Transportation	Federal Grants	Universal Health Care	Environmental	Massachusetts Tourism	Local Capital Projects	Local Aid Stabilization	Manufacturing
<b>REVENUES</b>								
Taxes.....	\$ 1,215,075	\$ -	\$ 163,293	\$ 972	\$ 48,854	\$ -	\$ -	\$ -
Assessments.....	23,133	-	403,813	-	-	-	-	-
Federal grants and reimbursements.....	-	3,729,503	77,407	6,060	-	-	-	-
Departmental.....	522,409	-	304,291	8,564	-	-	-	-
Miscellaneous.....	3,629	1,273	79,727	40	-	-	-	-
<b>Total revenues.....</b>	<b>1,764,246</b>	<b>3,730,776</b>	<b>1,028,531</b>	<b>15,636</b>	<b>48,854</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>OTHER FINANCING SOURCES</b>								
Bonds premium.....	-	-	-	-	-	-	-	-
Issuance of general and special obligation bonds.....	-	-	-	-	-	-	-	-
Issuance of current refunding bonds.....	-	-	-	-	-	-	-	-
Issuance of advance refunding bonds.....	-	-	-	-	-	-	-	-
Transfers in for debt service.....	-	-	-	-	-	-	-	-
Transfers in.....	112,759	3,923	1,047,631	179	113	21,250	375	13,583
<b>Total other financing sources.....</b>	<b>112,759</b>	<b>3,923</b>	<b>1,047,631</b>	<b>179</b>	<b>113</b>	<b>21,250</b>	<b>375</b>	<b>13,583</b>
<b>Total revenues and other financing sources.....</b>	<b>1,877,005</b>	<b>3,734,699</b>	<b>2,076,162</b>	<b>15,815</b>	<b>48,967</b>	<b>21,250</b>	<b>375</b>	<b>13,583</b>
<b>EXPENDITURES</b>								
Current:								
Judiciary.....	-	1,215	-	-	-	-	-	-
Inspector General.....	-	-	12	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	17	-	-	-
Secretary of the Commonwealth.....	-	916	-	-	-	-	-	-
Treasurer and Receiver-General.....	-	1,044	-	-	-	-	-	-
Attorney General.....	-	9,559	-	-	-	-	-	-
District Attorney.....	-	1,850	-	-	-	-	-	-
Sheriff's Departments.....	-	3,437	-	-	-	-	-	-
Board of Library Commissioners.....	-	2,939	-	-	-	-	-	-
Massachusetts Gaming Commission.....	-	-	-	-	-	-	-	-
Comptroller.....	-	-	-	-	-	-	-	-
Administration and Finance.....	125,000	10,731	12,612	118	-	-	-	-
Energy and Environmental Affairs.....	-	40,106	-	14,152	-	-	-	-
Health and Human Services.....	-	1,807,561	37,342	-	-	-	-	-
Massachusetts Department of Transportation.....	586,382	446	-	-	-	-	-	-
Executive Office of Education.....	-	-	-	-	-	-	-	-
Center for Health and Information Analysis.....	-	1,008,560	-	-	-	-	8,700	0
Massachusetts School Building Assistance.....	-	676	593	-	-	-	-	-
Public Safety and Homeland Security.....	-	143,236	-	-	-	-	-	-
Housing and Economic Development.....	-	460,108	-	-	25,182	-	-	9,729
Labor and Workforce development.....	-	146,762	29,829	-	-	-	-	2,000
Medicaid.....	-	-	1,776,579	-	-	-	-	-
Capital outlay:								
Local aid.....	-	-	-	-	-	-	-	-
Capital acquisition and construction.....	-	-	-	-	-	-	-	-
Debt service.....	-	-	-	-	-	-	-	-
Principal on current refundings.....	-	-	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>711,382</b>	<b>3,639,146</b>	<b>1,856,967</b>	<b>14,270</b>	<b>25,199</b>	<b>-</b>	<b>8,700</b>	<b>11,729</b>
<b>OTHER FINANCING USES</b>								
Payments to refunding bond escrow agent.....	-	-	-	-	-	-	-	-
Transfers out.....	40,483	94,999	189,313	2,150	23,442	-	-	272
Transfers of appropriations.....	-	-	-	-	-	-	-	1,582
Transfers of bond proceeds.....	-	-	-	-	-	-	-	-
Transfers out for debt service.....	1,073,217	-	-	-	-	-	-	-
<b>Total other financing uses.....</b>	<b>1,113,700</b>	<b>94,999</b>	<b>189,313</b>	<b>2,150</b>	<b>23,442</b>	<b>-</b>	<b>-</b>	<b>1,854</b>
<b>Total expenditures and other financing uses.....</b>	<b>1,825,082</b>	<b>3,734,145</b>	<b>2,046,280</b>	<b>16,420</b>	<b>48,641</b>	<b>-</b>	<b>8,700</b>	<b>13,583</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses...</b>	<b>51,923</b>	<b>554</b>	<b>29,882</b>	<b>(605)</b>	<b>326</b>	<b>21,250</b>	<b>(8,325)</b>	<b>-</b>
Fund balances (deficits) at beginning of year.....	23,356	78,298	222,914	21,455	4,936	-	-	-
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 75,279</b>	<b>\$ 78,852</b>	<b>\$ 252,796</b>	<b>\$ 20,850</b>	<b>\$ 5,262</b>	<b>\$ 21,250</b>	<b>\$ (8,325)</b>	<b>\$ -</b>

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Special Revenue									
Community College	Gaming Control	Dam and Seawall Repair or Removal	MBTA State & Local Contribution	Community Preservation Trust	Health Insurance Portability and Accountability Act	Division of Professional Licensure	Enhanced 911	Healthcare Workforce Transformation Trust	Health Information Technology Trust
\$ -	\$ -	\$ -	\$ 802,831	\$ 23,771	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	157,283	-	-	-	-	-	-
-	-	-	-	-	13,241	-	-	-	60,711
-	31,939	-	-	-	-	10,761	74,685	-	-
-	-	21,937	-	11,410	-	-	90	-	1,875
-	31,939	21,937	960,114	35,181	13,241	10,761	74,775	-	62,586
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
33,719	-	-	-	25,000	-	-	-	-	1,125
33,719	-	-	-	25,000	-	-	-	-	1,125
33,719	31,939	21,937	960,114	60,181	13,241	10,761	74,775	-	63,711
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	960,114	-	-	-	-	-	-
-	72	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	5,948	-	-
-	20,087	-	-	-	-	-	-	-	-
-	-	-	-	63,432	-	-	495	-	-
-	-	1,172	-	-	-	-	-	-	-
-	-	-	-	-	-	-	59	794	61,147
-	-	-	-	-	-	-	-	-	-
8,311	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	61,401	-	-
-	-	-	-	-	-	8,375	-	-	-
-	-	-	-	-	10,400	-	-	1,282	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
8,311	20,159	1,172	960,114	63,432	10,400	8,375	67,903	2,076	61,147
-	-	-	-	-	-	-	-	-	-
5,389	861	-	-	44	306	1,779	3,692	17	94
19,999	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
25,388	861	-	-	44	306	1,779	3,692	17	94
33,699	21,020	1,172	960,114	63,476	10,706	10,154	71,595	2,093	61,241
20	10,919	20,765	-	(3,295)	2,535	607	3,180	(2,093)	2,470
-	10,869	-	-	2,451	6,003	1,923	101,989	20,000	3,532
\$ 20	\$ 21,788	\$ 20,765	\$ -	\$ (844)	\$ 8,538	\$ 2,530	\$ 105,169	\$ 17,907	\$ 6,002

continued

# Combining Statement of Revenues, Expenditures and Changes in Fund Balances

## Other Governmental Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Special Revenue						
	Build America Bonds Subsidy Trust	Housing Preservation and Stabilization	Regional Greenhouse Gas Initiative (RGGI) Auction Trust	Workforce Training Trust	Child Support Enforcement	Department of Industrial Accidents	Convention and Exhibition Center
<b>REVENUES</b>							
Taxes.....	\$ -	\$ -	\$ -	\$ 22,219	\$ -	\$ -	\$ 108,897
Assessments.....	-	-	-	-	-	11,548	-
Federal grants and reimbursements.....	46,617	-	-	-	35,969	-	-
Departmental.....	-	-	67,631	-	4,987	2,391	-
Miscellaneous.....	-	-	-	-	68	5	2,308
<b>Total revenues.....</b>	<b>46,617</b>	<b>-</b>	<b>67,631</b>	<b>22,219</b>	<b>41,024</b>	<b>13,944</b>	<b>111,205</b>
<b>OTHER FINANCING SOURCES</b>							
Bonds premium.....	-	-	-	-	-	-	-
Issuance of general and special obligation bonds.....	-	-	-	-	-	-	-
Issuance of current refunding bonds.....	-	-	-	-	-	-	-
Issuance of advance refunding bonds.....	-	-	-	-	-	-	-
Transfers in for debt service.....	-	-	-	-	-	-	-
Transfers in.....	-	17,380	-	-	-	-	-
<b>Total other financing sources.....</b>	<b>-</b>	<b>17,380</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total revenues and other financing sources.....</b>	<b>46,617</b>	<b>17,380</b>	<b>67,631</b>	<b>22,219</b>	<b>41,024</b>	<b>13,944</b>	<b>111,205</b>
<b>EXPENDITURES</b>							
Current:							
Judiciary.....	-	-	-	-	-	-	-
Inspector General.....	-	-	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-
Secretary of the Commonwealth.....	-	-	-	-	-	-	-
Treasurer and Receiver-General.....	33,747	-	-	-	315	-	-
Attorney General.....	-	-	-	-	-	-	-
District Attorney.....	-	-	-	-	220	-	-
Sheriff's Departments.....	-	-	-	-	-	-	-
Board of Library Commissioners.....	-	-	-	-	-	-	-
Massachusetts Gaming Commission.....	-	-	-	-	-	-	-
Comptroller.....	-	-	-	-	-	-	-
Administration and Finance.....	-	-	-	-	49,444	-	49,685
Energy and Environmental Affairs.....	-	-	64,839	-	-	-	-
Health and Human Services.....	-	-	-	-	-	-	-
Massachusetts Department of Transportation.....	-	-	-	-	-	-	-
Executive Office of Education.....	-	-	-	-	-	-	-
Center for Health and Information Analysis.....	-	-	-	-	-	-	-
Massachusetts School Building Assistance.....	-	-	-	-	-	-	-
Public Safety and Homeland Security.....	-	-	-	-	-	-	-
Housing and Economic Development.....	-	8,467	-	-	-	-	-
Labor and Workforce development.....	-	-	-	14,889	40	-	-
Medicaid.....	-	-	-	-	-	-	-
Capital outlay:							
Local aid.....	-	-	-	-	-	-	-
Capital acquisition and construction.....	-	-	-	-	-	-	-
Debt service.....	-	-	-	-	-	-	-
Principal on current refundings.....	-	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>33,747</b>	<b>8,467</b>	<b>64,839</b>	<b>14,889</b>	<b>50,019</b>	<b>-</b>	<b>49,685</b>
<b>OTHER FINANCING USES</b>							
Payments to refunding bond escrow agent.....	-	-	-	-	-	-	-
Transfers out.....	12,791	-	-	162	1,456	21,878	-
Transfers of appropriations.....	-	-	-	-	-	-	-
Transfers of bond proceeds.....	-	-	-	-	-	-	-
Transfers out for debt service.....	-	-	-	-	-	-	36,722
<b>Total other financing uses.....</b>	<b>12,791</b>	<b>-</b>	<b>-</b>	<b>162</b>	<b>1,456</b>	<b>21,878</b>	<b>36,722</b>
<b>Total expenditures and other financing uses.....</b>	<b>46,538</b>	<b>8,467</b>	<b>64,839</b>	<b>15,051</b>	<b>51,475</b>	<b>21,878</b>	<b>86,407</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>79</b>	<b>8,913</b>	<b>2,792</b>	<b>7,168</b>	<b>(10,451)</b>	<b>(7,934)</b>	<b>24,798</b>
Fund balances (deficits) at beginning of year.....	8,290	-	37,870	23,402	51,584	33,706	92,913
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 8,369</b>	<b>\$ 8,913</b>	<b>\$ 40,662</b>	<b>\$ 30,570</b>	<b>\$ 41,133</b>	<b>\$ 25,772</b>	<b>\$ 117,711</b>

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Special Revenue				Capital Projects					Total
Grant Anticipation Note Trust	Expendable Trust	Other	Debt Service	General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Federal Highway Construction Program	Other	
\$ -	\$ -	\$ 515	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,386,427
-	18,794	25,516	-	-	-	-	-	-	640,087
582,871	19,810	1,242	-	16,702	-	-	13,997	-	4,604,130
-	42,839	47,313	-	-	-	-	3,215	-	1,121,025
71	387,626	4,037	-	1,313	-	327	-	-	515,736
<b>582,942</b>	<b>469,069</b>	<b>78,623</b>	<b>-</b>	<b>18,015</b>	<b>-</b>	<b>327</b>	<b>17,212</b>	<b>-</b>	<b>9,267,405</b>
19,014	-	-	84,920	35,185	-	53,456	-	-	192,575
-	-	-	-	1,179,662	-	1,178,525	-	1,712	2,359,899
-	-	-	159,335	-	-	-	-	-	159,335
-	-	-	477,460	-	-	-	-	-	477,460
-	-	-	2,374,950	-	-	-	-	-	2,374,950
9,773	21,573	28,259	-	-	-	-	466,586	-	1,803,228
<b>28,787</b>	<b>21,573</b>	<b>28,259</b>	<b>3,096,664</b>	<b>1,214,847</b>	<b>-</b>	<b>1,231,981</b>	<b>466,586</b>	<b>1,712</b>	<b>7,367,447</b>
<b>611,729</b>	<b>490,642</b>	<b>106,882</b>	<b>3,096,664</b>	<b>1,232,862</b>	<b>-</b>	<b>1,232,308</b>	<b>483,798</b>	<b>1,712</b>	<b>16,634,851</b>
-	107	-	-	-	-	-	-	-	1,322
-	-	-	-	-	-	-	-	-	12
-	72	-	-	-	-	-	-	-	89
-	-	5,846	-	-	-	-	-	-	6,762
9,070	117,242	65	27	4,357	-	753	-	-	1,126,734
-	13,944	531	-	-	-	-	-	-	24,106
-	7,045	104	-	-	-	-	-	-	9,219
-	1,543	572	-	-	-	-	-	-	11,500
-	55	-	-	-	-	-	-	-	2,994
-	744	2,038	-	-	-	-	-	-	22,869
-	455	3,027	-	-	-	-	-	-	3,482
-	39,903	2,355	-	-	-	-	-	-	353,775
-	62,746	26,105	-	-	-	-	-	-	209,120
-	48,147	21,737	-	-	-	-	9	-	1,976,796
-	-	11	-	174,867	-	1,082,167	451,914	-	2,295,787
-	16,821	2,093	-	-	-	-	-	-	18,914
-	609	89	-	-	-	-	-	-	1,026,268
-	-	-	-	-	-	-	-	-	1,269
-	6,547	3,734	-	-	-	-	-	-	214,918
-	22,230	1,203	-	-	-	-	-	-	535,294
-	79,264	-	-	-	-	-	-	-	274,066
-	-	-	-	-	-	-	-	-	1,786,979
-	-	-	-	-	-	-	-	54	54
-	-	-	-	957,757	-	39,302	497	928	998,484
-	-	-	2,374,950	-	-	-	-	-	2,374,950
-	-	-	159,335	-	-	-	-	-	159,335
<b>9,070</b>	<b>417,474</b>	<b>69,510</b>	<b>2,534,312</b>	<b>1,136,981</b>	<b>-</b>	<b>1,122,222</b>	<b>452,420</b>	<b>982</b>	<b>13,435,098</b>
-	-	-	562,352	-	-	-	-	-	562,352
404,481	128,145	25,796	-	11,342	-	84,866	7,528	-	1,061,286
-	-	6	-	-	-	-	-	-	21,587
-	-	-	-	215,690	-	-	-	-	215,690
186,166	-	18,634	-	-	-	-	-	-	1,314,739
<b>590,647</b>	<b>128,145</b>	<b>44,436</b>	<b>562,352</b>	<b>227,032</b>	<b>-</b>	<b>84,866</b>	<b>7,528</b>	<b>-</b>	<b>3,175,655</b>
<b>599,717</b>	<b>545,619</b>	<b>113,946</b>	<b>3,096,664</b>	<b>1,364,013</b>	<b>-</b>	<b>1,207,088</b>	<b>459,948</b>	<b>982</b>	<b>16,610,753</b>
<b>12,012</b>	<b>(54,977)</b>	<b>(7,064)</b>	<b>-</b>	<b>(131,151)</b>	<b>-</b>	<b>25,220</b>	<b>23,850</b>	<b>730</b>	<b>24,098</b>
206,871	531,612	46,812	11,951	(425,618)	8,393	(509,286)	(30,664)	(895)	584,667
<b>\$ 218,883</b>	<b>\$ 476,635</b>	<b>\$ 39,748</b>	<b>\$ 11,951</b>	<b>\$ (556,769)</b>	<b>\$ 8,393</b>	<b>\$ (484,066)</b>	<b>\$ (6,814)</b>	<b>\$ (165)</b>	<b>\$ 608,765</b>

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Budgetary Basis - Budget and Actual**  
Other Budgeted Nonmajor Governmental Funds

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	Commonwealth Transportation Fund				Environmental Funds			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
<b>REVENUES AND OTHER FINANCING SOURCES</b>								
Revenues:								
Taxes.....	\$ 1,217,400	\$ 1,217,400	\$ 1,231,994	\$ 14,594	\$ 900	\$ 900	\$ 962	\$ 62
Assessments.....	22,460	22,460	22,211	(249)	-	-	-	-
Federal grants and reimbursements.....	-	-	-	-	5,600	5,600	6,005	405
Departmental.....	523,795	523,795	522,364	(1,431)	8,638	8,638	8,487	(151)
Miscellaneous.....	1,410	1,410	2,430	1,020	28	28	40	12
Total revenues.....	1,765,065	1,765,065	1,778,999	13,934	15,166	15,166	15,494	328
Other financing sources:								
Operating transfers in.....	-	-	11,428	11,428	130	130	179	49
Other fund deficit support.....	-	-	102,495	102,495	-	-	-	-
Total other financing sources.....	-	-	113,923	113,923	130	130	179	49
Total revenues and other financing sources.....	1,765,065	1,765,065	1,892,922	127,857	15,296	15,296	15,673	377
<b>EXPENDITURES AND OTHER FINANCING USES</b>								
Expenditures:								
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-	-
Treasurer and Receiver-General.....	177,981	-	-	-	-	-	-	-
Administration and Finance.....	-	-	-	-	-	118	118	-
Energy and Environmental Affairs.....	-	-	-	-	14,689	14,570	14,152	418
Massachusetts Department of Transportation.....	351,895	275,300	275,200	100	-	-	-	-
Executive Office of Education.....	-	-	-	-	-	-	-	-
Housing and Economic Development.....	-	-	-	-	-	-	-	-
Labor and Workforce Development.....	-	-	-	-	-	-	-	-
Debt service:								
Principal retirement.....	-	637,447	616,364	21,083	-	-	-	-
Interest and fiscal charges.....	-	470,315	456,853	13,462	-	-	-	-
Total expenditures.....	529,877	1,383,062	1,348,417	34,645	14,689	14,688	14,270	418
Other financing uses:								
Fringe benefit cost assessment.....	-	-	-	-	-	1,939	2,150	(211)
Operating transfers out.....	238,462	512,079	515,089	(3,010)	-	-	-	-
State Retiree Benefits transfer.....	-	-	29,064	(29,064)	-	-	-	-
Other fund deficit support.....	-	-	-	-	-	-	-	-
Total other financing uses.....	238,462	512,079	544,153	(32,074)	-	1,939	2,150	(211)
Total expenditures and other financing uses.....	768,339	1,895,141	1,892,570	2,571	14,689	16,627	16,420	207
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	996,726	(130,076)	352	130,428	607	(1,331)	(747)	584
Fund balances/(deficit) at beginning of year.....	-	14,032	14,032	-	-	20,579	20,579	-
Fund balances/(deficit) at end of year.....	\$ 996,726	\$ (116,044)	\$ 14,384	\$ 130,428	\$ 607	\$ 19,248	\$ 19,832	\$ 584

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Massachusetts Tourism Fund				Local Capital Projects Fund				Local Aid Stabilization Fund			
Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
\$ 46,000	\$ 46,000	\$ 48,472	\$ 2,472	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
46,000	46,000	48,472	2,472	-	-	-	-	-	-	-	-
2,625	2,625	113	(2,512)	19,250	19,250	825	(18,425)	8,750	8,750	375	(8,375)
-	-	-	-	-	-	20,425	20,425	-	-	-	-
2,625	2,625	113	(2,512)	19,250	19,250	21,250	2,000	8,750	8,750	375	(8,375)
48,625	48,625	48,585	(40)	19,250	19,250	21,250	2,000	8,750	8,750	375	(8,375)
-	17	17	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	5	-	5	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	7,350	8,700	8,700	-
25,033	25,300	25,182	118	19,250	21,250	-	21,250	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
25,033	25,322	25,199	123	19,250	21,250	-	21,250	7,350	8,700	8,700	-
-	356	480	(124)	-	-	-	-	-	-	-	-
-	-	3,009	(3,009)	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	19,953	(19,953)	-	-	-	-	-	-	-	-
-	356	23,442	(23,086)	-	-	-	-	-	-	-	-
25,033	25,678	48,641	(22,963)	19,250	21,250	-	21,250	7,350	8,700	8,700	-
23,592	22,947	(56)	(23,003)	-	(2,000)	21,250	23,250	1,400	50	(8,325)	(8,375)
76	76	76	-	-	-	-	-	-	-	-	-
<u>\$ 23,668</u>	<u>\$ 23,023</u>	<u>\$ 20</u>	<u>\$ (23,003)</u>	<u>\$ -</u>	<u>\$ (2,000)</u>	<u>\$ 21,250</u>	<u>\$ 23,250</u>	<u>\$ 1,400</u>	<u>\$ 50</u>	<u>\$ (8,325)</u>	<u>\$ (8,375)</u>

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Budgetary Basis - Budget and Actual**  
Other Budgeted Nonmajor Governmental Funds

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	Manufacturing Fund				Community College Fund			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
<b>REVENUES AND OTHER FINANCING SOURCES</b>								
Revenues:								
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assessments.....	-	-	-	-	-	-	-	-
Federal grants and reimbursements.....	-	-	-	-	-	-	-	-
Departmental.....	-	-	-	-	-	-	-	-
Miscellaneous.....	-	-	-	-	-	-	-	-
Total revenues.....	-	-	-	-	-	-	-	-
Other financing sources:								
Operating transfers in.....	22,750	22,750	975	(21,775)	29,750	29,750	1,275	(28,475)
Other fund deficit support.....	-	-	12,608	12,608	-	-	32,444	32,444
Total other financing sources.....	22,750	22,750	13,583	(9,167)	29,750	29,750	33,719	3,969
Total revenues and other financing sources.....	22,750	22,750	13,583	(9,167)	29,750	29,750	33,719	3,969
<b>EXPENDITURES AND OTHER FINANCING USES</b>								
Expenditures:								
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-	-
Treasurer and Receiver-General.....	-	-	-	-	-	-	-	-
Administration and Finance.....	1,582	-	-	-	-	-	-	-
Energy and Environmental Affairs.....	-	-	-	-	-	-	-	-
Massachusetts Department of Transportation.....	-	-	-	-	-	-	-	-
Executive Office of Education.....	-	1,582	1,582	-	24,750	30,469	28,310	2,159
Housing and Economic Development.....	18,750	19,163	9,729	9,434	-	-	-	-
Labor and Workforce Development.....	2,000	2,000	2,000	-	-	-	-	-
Debt service:								
Principal retirement.....	-	-	-	-	-	-	-	-
Interest and fiscal charges.....	-	-	-	-	-	-	-	-
Total expenditures.....	22,332	22,745	13,311	9,434	24,750	30,469	28,310	2,159
Other financing uses:								
Fringe benefit cost assessment.....	-	-	272	(272)	-	-	5,389	(5,389)
Operating transfers out.....	-	-	-	-	-	-	-	-
State Retiree Benefits transfer.....	-	-	-	-	-	-	-	-
Other fund deficit support.....	-	-	-	-	-	-	-	-
Total other financing uses.....	-	-	272	(272)	-	-	5,389	(5,389)
Total expenditures and other financing uses.....	22,332	22,745	13,583	9,162	24,750	30,469	33,699	(3,230)
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	418	5	-	(5)	5,000	(719)	20	739
Fund balances/(deficit) at beginning of year.....	-	-	-	-	-	-	-	-
Fund balances/(deficit) at end of year.....	\$ 418	\$ 5	\$ -	\$ (5)	\$ 5,000	\$ (719)	\$ 20	\$ 739

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Public Safety Trust Fund				Children and Families Protection Fund				Totals			
Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,264,300	\$ 1,264,300	\$ 1,281,428	\$ 17,128
-	-	-	-	-	-	-	-	22,460	22,460	22,211	(249)
-	-	-	-	-	-	-	-	5,600	5,600	6,005	405
-	-	568	568	-	-	1	1	532,433	532,433	531,420	(1,013)
-	-	-	-	-	-	-	-	1,438	1,438	2,470	1,032
-	-	568	568	-	-	1	1	1,826,231	1,826,231	1,843,534	17,303
-	-	-	-	-	-	-	-	83,255	83,255	15,170	(68,085)
-	-	-	-	-	-	-	-	-	-	167,972	167,972
-	-	-	-	-	-	-	-	83,255	83,255	183,142	99,887
-	-	568	568	-	-	1	1	1,909,486	1,909,486	2,026,676	117,190
-	-	-	-	-	-	-	-	-	17	17	-
-	-	-	-	-	-	-	-	177,981	-	-	-
-	-	-	-	-	-	-	-	1,582	118	118	-
-	-	-	-	-	-	-	-	14,689	14,570	14,152	418
-	-	-	-	-	-	-	-	351,895	275,305	275,200	105
-	-	-	-	-	-	-	-	32,100	40,751	38,592	2,159
-	-	-	-	-	-	-	-	63,033	65,713	34,911	30,802
-	-	-	-	-	-	-	-	2,000	2,000	2,000	-
-	-	-	-	-	-	-	-	-	637,447	616,364	21,083
-	-	-	-	-	-	-	-	-	470,315	456,853	13,462
-	-	-	-	-	-	-	-	643,280	1,506,236	1,438,207	68,029
-	-	-	-	-	-	-	-	-	2,295	8,291	(5,996)
-	-	-	-	-	-	1	(1)	238,462	512,079	518,099	(6,020)
-	-	-	-	-	-	-	-	-	-	29,064	(29,064)
-	-	-	-	-	-	-	-	-	-	19,953	(19,953)
-	-	-	-	-	-	1	(1)	238,462	514,374	575,407	(61,033)
-	-	-	-	-	-	1	(1)	881,743	2,020,610	2,013,614	6,996
-	-	568	568	-	-	-	-	1,027,743	(111,124)	13,062	124,186
-	-	-	-	-	-	-	-	76	34,687	34,687	-
\$ -	\$ -	\$ 568	\$ 568	\$ -	\$ -	\$ -	\$ -	\$ 1,027,819	\$ (76,437)	\$ 47,749	\$ 124,186

## Combining Budget to GAAP Reconciliation

### Other Budgeted Nonmajor Governmental Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Commonwealth Transportation Fund	Environmental Funds	Massachusetts Tourism Fund	Local Capital Projects Fund
Total actual revenues - budgetary basis (pages 142-145).....	\$ 1,778,999	\$ 15,494	\$ 48,472	\$ -
Adjustments:				
Taxes receivable, net.....	(16,919)	10	382	-
Federal grants and other receivables, net.....	2,166	132	-	-
Total actual revenues - GAAP basis (pages 138-141).....	<u>\$ 1,764,246</u>	<u>\$ 15,636</u>	<u>\$ 48,854</u>	<u>\$ -</u>
 Total actual other financing sources - budgetary basis (page 142-145).....	 \$ 113,923	 \$ 179	 \$ 113	 \$ 21,250
MassDOT transfers in is reclassified to revenues.....	(1,164)	-	-	-
Total actual other financing sources - GAAP basis (pages 138-141).....	<u>\$ 112,759</u>	<u>\$ 179</u>	<u>\$ 113</u>	<u>\$ 21,250</u>
 Total actual expenditures- budgetary basis (pages 142-145).....	 \$ 1,348,417	 \$ 14,270	 \$ 25,199	 \$ -
Adjustment:				
Due to component units accrual, net.....	(67,488)	-	-	-
Reclassification:				
MassDOT transfers out is reclassified to expenditures.....	503,670	-	-	-
Higher education expenditures are reclassified to transfers out.....	-	-	-	-
Debt service principal and interest payments are reclassified to transfers out to the debt service fund.....	(1,073,217)	-	-	-
Total actual expenditures - GAAP basis (pages 138-141).....	<u>\$ 711,382</u>	<u>\$ 14,270</u>	<u>\$ 25,199</u>	<u>\$ -</u>
 Total actual other financing uses - budgetary basis (pages 142-145).....	 \$ 544,153	 \$ 2,150	 \$ 23,442	 \$ -
Reclassification:				
MassDOT transfers out is reclassified to expenditures.....	(503,670)	-	-	-
Higher education expenditures are reclassified to transfers out.....	-	-	-	-
Debt service principal and interest payments are reclassified to transfers out to the debt service fund.....	1,073,217	-	-	-
Total actual other financing uses - GAAP basis (pages 138-141).....	<u>\$ 1,113,700</u>	<u>\$ 2,150</u>	<u>\$ 23,442</u>	<u>\$ -</u>

\* On a GAAP basis, the activity of these funds is combined in the other special revenue funds column on the combined statement of revenues, expenditures and changes in fund balance. The revenues, other financing sources, expenditures and other financing uses of these other special revenue funds are \$205,437, \$28,259, \$68,135 and \$172,625, respectively (all amounts in thousands).

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Local Aid Stabilization Fund	Manufacturing Fund	Community College Fund	Public Safety Trust Fund*	Children and Families Protection Fund*	Totals
\$ -	\$ -	\$ -	\$ 568	\$ 1	\$ 1,843,534
-	-	-	-	-	(16,527)
-	-	-	-	2	2,300
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 568</u>	<u>\$ 3</u>	<u>\$ 1,829,307</u>
\$ 375	\$ 13,583	\$ 33,719	\$ -	\$ -	\$ 183,142
-	-	-	-	-	(1,164)
<u>\$ 375</u>	<u>\$ 13,583</u>	<u>\$ 33,719</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 181,978</u>
\$ 8,700	\$ 13,311	\$ 28,310	\$ -	\$ -	\$ 1,438,207
-	-	-	-	-	(67,488)
-	-	-	-	-	503,670
-	(1,582)	(19,999)	-	-	(21,581)
-	-	-	-	-	(1,073,217)
<u>\$ 8,700</u>	<u>\$ 11,729</u>	<u>\$ 8,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 779,590</u>
\$ -	\$ 272	\$ 5,389	\$ -	\$ 1	\$ 575,407
-	-	-	-	-	(503,670)
-	1,582	19,999	-	-	21,581
-	-	-	-	-	1,073,217
<u>\$ -</u>	<u>\$ 1,854</u>	<u>\$ 25,388</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 1,166,536</u>

# Combining Statement of Net Position Available for Post-Employment Benefits

Pension Trust Funds

June 30, 2014

(Amounts in thousands)

	Pension Trust Funds		OPEB Trust Fund	Total
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 52,178	\$ 126,380	\$ 59,785	\$ 238,343
Net investment in PRIT at fair value.....	23,882,168	25,324,715	545,295	49,752,178
Other receivables.....	1,602	84,390	-	85,992
Other assets.....	10	15,395	-	15,405
<b>Total assets.....</b>	<b>23,935,958</b>	<b>25,550,880</b>	<b>605,080</b>	<b>50,091,918</b>
<b>LIABILITIES</b>				
Accounts payable.....	5,063	12,234	11	17,308
<b>Net position available for post-employment benefits.....</b>	<b>\$ 23,930,895</b>	<b>\$ 25,538,646</b>	<b>\$ 605,069</b>	<b>\$ 50,074,610</b>

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**Combining Statement of Changes in Net Position Available for Post-Employment Benefits**  
**Pension Trust Funds**  
**Fiscal Year Ended June 30, 2014**  
**(Amounts in thousands)**

	Pension Trust Funds		OPEB Trust Fund	
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
<b>ADDITIONS</b>				
Contribution:				
Employer contributions.....	\$ 593,932	\$ -	\$ 487,159	\$ 1,081,091
Non-employer contributions.....	-	1,035,418	-	1,035,418
Employee contributions.....	501,106	653,328	-	1,154,434
Other additions.....	49,115	73,659	120	122,894
<b>Total contributions.....</b>	<b>1,144,153</b>	<b>1,762,405</b>	<b>487,279</b>	<b>3,393,837</b>
Net investment gain/(loss):				
Investment gain/(loss).....	3,675,419	3,904,048	83,767	7,663,234
Less: investment expense.....	(112,563)	(132,165)	(2,970)	(247,698)
<b>Net investment gain/(loss).....</b>	<b>3,562,856</b>	<b>3,771,883</b>	<b>80,797</b>	<b>7,415,536</b>
<b>Total additions.....</b>	<b>4,707,009</b>	<b>5,534,288</b>	<b>568,076</b>	<b>10,809,373</b>
<b>DEDUCTIONS</b>				
Administration.....	36,057	41,675	205	77,937
Retirement benefits and refunds.....	1,825,015	2,551,737	420,361	4,797,113
Payments to State Boston Retirement System.....	-	99,532	-	99,532
<b>Total deductions.....</b>	<b>1,861,072</b>	<b>2,692,944</b>	<b>420,566</b>	<b>4,974,582</b>
<b>Net increase/(decrease).....</b>	<b>2,845,937</b>	<b>2,841,344</b>	<b>147,510</b>	<b>5,834,791</b>
Net position available for post-employment benefits at beginning of year.....	21,084,958	22,697,302	457,559	44,239,819
<b>Net position available for post-employment benefits at end of year.....</b>	<b>\$ 23,930,895</b>	<b>\$ 25,538,646</b>	<b>\$ 605,069</b>	<b>\$ 50,074,610</b>

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# Combining Statement of Net Position Held in Trust for Pool Participants

External Investment Trust Funds

June 30, 2014

(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
<b>ASSETS</b>			
Assets held in trust for pension benefits:			
Net investment in PRIT at fair value.....	\$ -	\$ 10,923,596	\$ 10,923,596
Assets held in trust for pool participants:			
Cash and short-term investments.....	2,747,948	-	2,747,948
<b>Total assets.....</b>	<b>2,747,948</b>	<b>10,923,596</b>	<b>13,671,544</b>
<b>LIABILITIES</b>			
Accounts payable.....	-	-	-
<b>Net position held in trust for pool/pension participants.....</b>	<b>\$ 2,747,948</b>	<b>\$ 10,923,596</b>	<b>\$ 13,671,544</b>

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## Combining Statement of Changes in Net Position Held in Trust for Pool Participants

External Investment Trust Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
<b>ADDITIONS</b>			
Contribution:			
Employees contributions.....	\$ -	\$ 793,507	\$ 793,507
Proceeds from sale of units.....	20,642,368	-	20,642,368
<b>Total contributions.....</b>	<b>20,642,368</b>	<b>793,507</b>	<b>21,435,875</b>
Net investment gain/(loss):			
Investment gain/(loss).....	7,433	1,670,865	1,678,298
Less: investment expense.....	(1,515)	(72,226)	(73,741)
<b>Net investment gain/(loss).....</b>	<b>5,918</b>	<b>1,598,639</b>	<b>1,604,557</b>
<b>Total additions.....</b>	<b>20,648,286</b>	<b>2,392,146</b>	<b>23,040,432</b>
<b>DEDUCTIONS</b>			
Cost of units redeemed.....	20,606,497	-	20,606,497
Distributions to unit holders from net interest income.....	5,705	-	5,705
Retirement benefits and refunds.....	-	739,175	739,175
<b>Total deductions.....</b>	<b>20,612,202</b>	<b>739,175</b>	<b>21,351,377</b>
<b>Net increase/(decrease).....</b>	<b>36,084</b>	<b>1,652,971</b>	<b>1,689,055</b>
Net position held in trust for pool/pensions participants at beginning of year.....	2,711,864	9,270,625	11,982,489
<b>Net position held in trust for pool/pensions participants at end of year .....</b>	<b>\$ 2,747,948</b>	<b>\$ 10,923,596</b>	<b>\$ 13,671,544</b>

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# Combining Statement of Changes in Assets and Liabilities

## Agency Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<b><u>Central Agency Funds</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 334,680	\$ 9,556,140	\$ 9,483,824	\$ 406,996
Investments, restricted investments and annuity contracts.....	1,486,299	175,999	292,021	1,370,277
Taxes receivable.....	2,417	2,183	2,417	2,183
Other receivables.....	22,743	12,927	22,743	12,927
<b>Total assets.....</b>	<b>\$ 1,846,139</b>	<b>\$ 9,747,249</b>	<b>\$ 9,801,005</b>	<b>\$ 1,792,383</b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 71,270	\$ 3,646,641	\$ 3,587,254	\$ 130,657
Due to cities and towns.....	23,450	507,830	498,215	33,065
Due to federal government.....	-	110	110	-
Lottery prizes payable.....	1,486,299	175,999	292,021	1,370,277
Agency liabilities.....	252,429	4,054,348	4,054,750	252,027
Other liabilities.....	12,691	6,357	12,691	6,357
<b>Total liabilities.....</b>	<b>\$ 1,846,139</b>	<b>\$ 8,391,285</b>	<b>\$ 8,445,041</b>	<b>\$ 1,792,383</b>
<b><u>Court Escrow and Client Accounts</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 144,044	\$ 1,700,318	\$ 1,685,436	\$ 158,926
Other receivables.....	116,660	121,565	116,660	121,565
<b>Total assets.....</b>	<b>\$ 260,704</b>	<b>\$ 1,821,883</b>	<b>\$ 1,802,096</b>	<b>\$ 280,491</b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 422	\$ 1,953,237	\$ 1,953,417	\$ 242
Agency liabilities.....	260,282	1,126,780	1,106,813	280,249
<b>Total liabilities.....</b>	<b>\$ 260,704</b>	<b>\$ 3,080,017</b>	<b>\$ 3,060,230</b>	<b>\$ 280,491</b>
<b><u>Statutory Bonds and Deposits</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 113,794	\$ 531,862	\$ 531,979	\$ 113,677
Investments, restricted investments and annuity contracts.....	564,610	36,374	10,630	590,354
<b>Total assets.....</b>	<b>\$ 678,404</b>	<b>\$ 568,236</b>	<b>\$ 542,609</b>	<b>\$ 704,031</b>
<b>LIABILITIES</b>				
Agency liabilities.....	<b>\$ 678,404</b>	<b>\$ 568,236</b>	<b>\$ 542,609</b>	<b>\$ 704,031</b>

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# Combining Statement of Changes in Assets and Liabilities

## Agency Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<b><u>Total Agency Funds</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 592,518	\$ 11,788,320	\$ 11,701,239	\$ 679,599
Investments, restricted investments and annuity contracts.....	2,050,909	212,373	302,651	1,960,631
Taxes receivable.....	2,417	2,183	2,417	2,183
Other receivables.....	139,403	134,492	139,403	134,492
<b>Total assets.....</b>	<b><u>\$ 2,785,247</u></b>	<b><u>\$ 12,137,368</u></b>	<b><u>\$ 12,145,710</u></b>	<b><u>\$ 2,776,905</u></b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 71,692	\$ 5,599,878	\$ 5,540,671	\$ 130,899
Due to cities and towns.....	23,450	507,830	498,215	33,065
Due to federal government.....	-	110	110	-
Lottery prizes payable.....	1,486,299	175,999	292,021	1,370,277
Agency liabilities.....	1,191,115	5,749,364	5,704,172	1,236,307
Other liabilities.....	12,691	6,357	12,691	6,357
<b>Total liabilities.....</b>	<b><u>\$ 2,785,247</u></b>	<b><u>\$ 12,039,538</u></b>	<b><u>\$ 12,047,880</u></b>	<b><u>\$ 2,776,905</u></b>

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**Combining Statement of Net Position**  
Nonmajor Component Units  
June 30, 2014  
(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Clean Energy Center	Massachusetts Technology Park Corporation	Massachusetts Housing Partnership	Economic Development Entities	Higher Education Foundations	Total
<b>ASSETS AND DEFERRED OUTFLOWS</b>								
Current assets:								
Cash and cash equivalents.....	\$ 28,275	\$ 9,498	\$ 40,400	\$ 129	\$ 14,876	\$ 68,287	\$ 23,213	\$ 184,678
Short-term investments.....	-	116,264	-	38,376	-	44,723	67,097	266,460
Restricted cash and investment.....	1,033	16,922	-	-	59,175	27,151	2,778	107,059
Assets held in trust.....	-	-	177,597	-	-	-	-	177,597
Receivables, net of allowance for uncollectibles:								
Federal grants and reimbursement receivable.....	-	-	-	-	-	807	-	807
Loans.....	318	15,559	1,984	-	12,280	11,227	-	41,368
Other receivables.....	2,057	13,103	2,582	1,541	2,194	2,497	6,107	30,081
Due from primary government.....	14,917	762	-	1,634	-	50,787	354	68,454
Inventory.....	-	139	-	-	-	56	-	195
Other current assets.....	1,944	1,999	86	402	-	13,730	1,236	19,397
<b>Total current assets.....</b>	<b>48,544</b>	<b>174,246</b>	<b>222,649</b>	<b>42,082</b>	<b>88,525</b>	<b>219,265</b>	<b>100,785</b>	<b>896,096</b>
Noncurrent assets:								
Cash and cash equivalents - restricted.....	-	34,690	63,950	8,120	-	-	1,378	108,138
Long - term investments.....	-	74,138	8,803	-	-	1,690	559,035	643,666
Restricted investments.....	-	-	113,904	-	-	-	43,269	157,173
Accounts receivables, net.....	-	-	-	-	-	601	9,110	9,711
Loans receivables, net.....	17,095	79,539	-	-	446,968	41,151	-	584,753
Non-depreciable capital assets.....	189,082	19,789	2,536	1,984	-	495	14,070	227,956
Depreciable capital assets, net.....	634,886	214,138	73,500	90,112	-	12,400	25,585	1,050,621
Other noncurrent assets.....	-	7,890	-	-	609	-	3,483	11,982
<b>Total noncurrent assets.....</b>	<b>841,063</b>	<b>430,184</b>	<b>262,693</b>	<b>100,216</b>	<b>447,577</b>	<b>56,337</b>	<b>655,930</b>	<b>2,794,000</b>
Deferred outflows of resources:								
Deferred change in fair value of interest rate swaps.....	-	14,265	-	-	-	-	-	14,265
<b>Total assets and deferred outflows.....</b>	<b>889,607</b>	<b>618,695</b>	<b>485,342</b>	<b>142,298</b>	<b>536,102</b>	<b>275,602</b>	<b>756,715</b>	<b>3,704,361</b>
<b>LIABILITIES</b>								
Current liabilities:								
Accounts payable and other liabilities.....	13,690	8,785	10,610	7,894	1,256	47,524	17,136	106,895
Accrued payroll.....	-	-	-	-	840	160	-	1,000
Compensated absences.....	1,187	833	-	-	-	821	-	2,841
Accrued interest payable.....	-	-	-	-	1,572	-	16	1,588
Due to primary government.....	-	472	-	-	-	-	328	800
Deferred revenue.....	10,858	-	177,591	-	-	39,997	1,695	230,141
Capital leases.....	-	-	-	-	-	-	293	293
Bonds, notes payable and other obligations.....	-	4,350	-	-	10,848	4,326	1,267	20,791
<b>Total current liabilities.....</b>	<b>25,735</b>	<b>14,440</b>	<b>188,201</b>	<b>7,894</b>	<b>14,516</b>	<b>92,828</b>	<b>20,735</b>	<b>364,349</b>
Noncurrent liabilities:								
Compensated absences.....	1,350	-	-	-	-	120	-	1,470
Accrued interest payable.....	-	2,639	-	-	-	-	-	2,639
Due to primary government.....	-	9,996	-	-	-	-	-	9,996
Deferred revenue.....	-	-	-	-	25,862	1,421	-	27,283
Bonds, notes payable and other obligations.....	-	162,338	-	-	436,882	60,250	12,430	671,900
Post - employment obligations.....	6,113	-	-	-	-	-	-	6,113
Liability for derivative instruments.....	-	14,265	-	-	-	-	-	14,265
Other noncurrent liabilities.....	6,179	8,705	-	-	13,773	1,900	3,693	34,250
<b>Total noncurrent liabilities.....</b>	<b>13,642</b>	<b>197,943</b>	<b>-</b>	<b>-</b>	<b>476,517</b>	<b>63,691</b>	<b>16,123</b>	<b>767,916</b>
<b>Total liabilities.....</b>	<b>39,377</b>	<b>212,383</b>	<b>188,201</b>	<b>7,894</b>	<b>491,033</b>	<b>156,519</b>	<b>36,858</b>	<b>1,132,265</b>
<b>NET POSITION</b>								
Net investment in capital assets.....	823,968	103,036	76,036	92,096	-	12,889	23,238	1,131,263
Restricted for:								
Clean energy trusts.....	-	-	221,105	-	-	-	-	221,105
Economic development financing.....	-	163,473	-	-	-	9,156	-	172,629
Other purposes.....	1,033	-	-	30,345	19,117	43,941	622,116	716,552
Unrestricted.....	25,229	139,803	-	11,963	25,952	53,097	74,503	330,547
<b>Total net position.....</b>	<b>\$ 850,230</b>	<b>\$ 406,312</b>	<b>\$ 297,141</b>	<b>\$ 134,404</b>	<b>\$ 45,069</b>	<b>\$ 119,083</b>	<b>\$ 719,857</b>	<b>\$ 2,572,096</b>

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# Combining Statement of Revenues, Expenses and Changes in Net Position

Nonmajor Component Units

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Clean Energy Center	Massachusetts Technology Park Corporation	Massachusetts Housing Partnership	Economic Development Entities	Higher Education Foundations	Total
<b>Operating revenues:</b>								
Charges for services.....	\$ 51,519	\$ 50,603	\$ -	\$ -	\$ 7,882	\$ 105,771	\$ 14,579	\$ 230,354
Other.....	805	29,168	26,456	34,738	6,351	6,613	18,176	122,307
<b>Total operating revenues.....</b>	<b>52,324</b>	<b>79,771</b>	<b>26,456</b>	<b>34,738</b>	<b>14,233</b>	<b>112,384</b>	<b>32,755</b>	<b>352,661</b>
<b>Operating expenses:</b>								
Cost of services .....	47,952	10,085	21,980	26,883	6,367	116,098	-	229,365
Administration costs.....	30,265	61,066	8,485	41	5,485	11,935	37,520	154,797
Depreciation.....	45,524	11,979	1,804	552	107	885	1,004	61,855
<b>Total operating expenses.....</b>	<b>123,741</b>	<b>83,130</b>	<b>32,269</b>	<b>27,476</b>	<b>11,959</b>	<b>128,918</b>	<b>38,524</b>	<b>446,017</b>
<b>Operating income (loss).....</b>	<b>(71,417)</b>	<b>(3,359)</b>	<b>(5,813)</b>	<b>7,262</b>	<b>2,274</b>	<b>(16,534)</b>	<b>(5,769)</b>	<b>(93,356)</b>
<b>Nonoperating revenues (expenses):</b>								
Operating grants.....	49,684	434	64,008	-	-	25,954	-	140,080
Interest income.....	796	1,834	-	88	-	113	67,815	70,646
Other nonoperating revenue (expense).....	(67)	-	8,091	-	(14)	(1,275)	34,132	40,867
<b>Nonoperating revenues (expenses), net.....</b>	<b>50,413</b>	<b>2,268</b>	<b>72,099</b>	<b>88</b>	<b>(14)</b>	<b>24,792</b>	<b>101,947</b>	<b>251,593</b>
<b>Income (loss) before contributions.....</b>	<b>(21,004)</b>	<b>(1,091)</b>	<b>66,286</b>	<b>7,350</b>	<b>2,260</b>	<b>8,258</b>	<b>96,178</b>	<b>158,237</b>
Capital contributions.....	-	13,736	-	-	-	593	-	14,329
<b>Change in net position (deficits).....</b>	<b>(21,004)</b>	<b>12,645</b>	<b>66,286</b>	<b>7,350</b>	<b>2,260</b>	<b>8,851</b>	<b>96,178</b>	<b>172,566</b>
Net position - beginning, as restated.....	871,234	393,667	230,855	127,054	42,809	110,232	623,679	2,399,530
<b>Net position - ending.....</b>	<b>\$ 850,230</b>	<b>\$ 406,312</b>	<b>\$ 297,141</b>	<b>\$ 134,404</b>	<b>\$ 45,069</b>	<b>\$ 119,083</b>	<b>\$ 719,857</b>	<b>\$ 2,572,096</b>

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# *Statistical Section*

*(Unaudited)*



## *Old North Bridge, Concord*

*Schedule of Net Position by Component – Last Ten Fiscal Years*

*Changes in Net Position – Last Ten Fiscal Years*

*Fund Balances, Governmental Funds – Last Ten Fiscal Years*

*Ten-Year Schedule of Revenues and Other Financing Sources – All Governmental Fund Types*

*Ten-Year Schedule of Expenditures and Other Financing Uses by Secretariat – All Governmental Fund Types*

*Personal Income by Industry – Last Ten Calendar Years*

*Personal Income Tax Filers and Liability by Income Level Calendar (Tax) Years 2012 and 2003*

*Ten-Year Schedule of Per Capita General Long-Term Bonded Debt and Capital Leases*

*Ten-Year Schedule of Outstanding Direct Debt and Statutory Debt Limit*

*Ten-Year Schedule of Pledged Revenue Coverage*

*Ten-Year Schedule of Percentage of Annual Debt Service Expenditures for General Bonded Debt*

*To Total Non-Capital Expenditures – Fund Perspective - All Governmental Fund Types*

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*Ten-Year Schedule of Annual Average Civilian Labor Force, Unemployment and Unemployment Rates*

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*Calculation of Transfers – Stabilization Fund*

*Calculation of Transfer – Tax Reduction Fund*

*Massachusetts General Information*

## ***Statistical Section Narrative and Table of Contents***

This part of the Commonwealth of Massachusetts' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health.

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**Schedule of Net Position by Component**  
**Last Ten Fiscal Years**

(Amounts in thousands)

	2014	2013	2012	2011	2010*
<b>Governmental activities</b>					
Net investment in capital assets.....	\$ (502,370)	\$ (592,483)	\$ (849,338)	\$ (722,469)	\$ (885,593)
Restricted.....	1,455,704	1,386,416	1,456,715	1,520,702	1,403,877
Unrestricted.....	(29,913,024)	(26,733,809)	(24,905,165)	(23,631,098)	(22,891,629)
<b>Total governmental activities net position.....</b>	<b>\$ (28,959,690)</b>	<b>\$ (25,939,876)</b>	<b>\$ (24,297,788)</b>	<b>\$ (22,832,865)</b>	<b>\$ (22,373,344)</b>
<b>Business-type activities</b>					
Net investment in capital assets.....	\$ 2,794,845	\$ 2,605,263	\$ 2,366,038	\$ 2,026,223	\$ 1,767,434
Restricted.....	1,590,545	1,209,630	1,576,865	1,364,646	1,148,751
Unrestricted.....	1,102,251	1,026,230	969,309	978,043	857,263
<b>Total business-type activities net position.....</b>	<b>\$ 5,487,641</b>	<b>\$ 4,841,123</b>	<b>\$ 4,912,212</b>	<b>\$ 4,368,912</b>	<b>\$ 3,773,448</b>
<b>Commonwealth net position</b>					
Net investment in capital assets.....	\$ 2,292,475	\$ 2,012,780	\$ 1,516,700	\$ 1,303,754	\$ 881,841
Restricted.....	3,046,249	2,596,046	3,033,580	2,885,348	2,552,628
Unrestricted.....	(28,810,773)	(25,707,579)	(23,935,856)	(22,653,055)	(22,034,366)
<b>Total Commonwealth net position.....</b>	<b>\$ (23,472,049)</b>	<b>\$ (21,098,753)</b>	<b>\$ (19,385,576)</b>	<b>\$ (18,463,953)</b>	<b>\$ (18,599,896)</b>

\* Restated

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2009*	2008*	2007*	2006*	2005*
\$ 189,913	\$ 446,666	\$ 489,432	\$ 101,510	\$ 196,765
1,377,951	1,413,968	1,271,051	2,010,373	1,526,576
(13,721,519)	(11,022,084)	(11,357,260)	(12,409,269)	(13,267,433)
<b>\$ (12,153,655)</b>	<b>\$ (9,161,450)</b>	<b>\$ (9,596,777)</b>	<b>\$ (10,297,385)</b>	<b>\$ (11,544,092)</b>
\$ 1,698,825	\$ 1,562,002	\$ 1,392,363	\$ 1,283,570	\$ 1,149,352
1,609,145	2,390,206	2,295,507	1,816,066	1,331,053
621,952	644,363	645,211	548,774	562,777
<b>\$ 3,929,922</b>	<b>\$ 4,596,571</b>	<b>\$ 4,333,081</b>	<b>\$ 3,648,410</b>	<b>\$ 3,043,182</b>
\$ 1,888,738	\$ 2,008,668	\$ 1,881,795	\$ 1,385,080	\$ 1,346,117
2,987,096	3,804,174	3,566,558	3,826,439	2,857,629
(13,099,567)	(10,377,721)	(10,712,049)	(11,860,495)	(12,704,656)
<b>\$ (8,223,733)</b>	<b>\$ (4,564,879)</b>	<b>\$ (5,263,696)</b>	<b>\$ (6,648,975)</b>	<b>\$ (8,500,910)</b>

**Changes in Net Position  
Last Ten Fiscal Years**

(Amounts in thousands)

	2014	2013	2012	2011	2010
<b>EXPENSES</b>					
<b>Governmental Activities:</b>					
General government.....	\$ 2,538,043	\$ 2,587,273	\$ 2,391,694	\$ 2,305,783	\$ 2,358,706
Judiciary.....	1,027,875	1,002,797	945,457	992,990	1,043,004
Direct local aid.....	5,353,521	5,179,104	4,991,532	4,845,738	5,030,363
Medicaid.....	14,034,862	12,286,342	11,708,397	12,124,261	10,677,999
Group health insurance.....	1,403,590	1,282,661	1,218,079	1,113,544	1,092,178
Energy and environmental.....	623,952	532,330	572,632	685,032	326,128
Housing and economic development*.....	1,291,676	1,252,292	1,247,310	1,362,822	1,297,143
Health and human services*.....	7,360,519	7,787,051	7,643,950	7,124,856	7,244,968
Transportation and public works.....	2,391,322	1,879,271	1,765,101	2,262,374	2,088,354
Early elementary and secondary education*.....	4,545,848	4,335,639	4,259,568	3,649,543	3,395,360
Public safety and homeland security.....	2,503,812	2,440,212	2,346,958	2,276,402	2,409,557
Labor and workforce development*.....	356,954	389,806	474,096	497,927	483,091
Lottery.....	3,980,980	3,982,700	3,877,305	3,661,834	3,649,396
Interest (unallocated).....	1,197,709	1,206,542	1,202,772	1,177,569	1,090,471
<b>Total governmental activities.....</b>	<b>48,610,664</b>	<b>46,144,020</b>	<b>44,644,851</b>	<b>44,080,674</b>	<b>42,186,717</b>
<b>Business-type Activities:</b>					
Unemployment compensation.....	2,036,431	2,718,447	3,466,500	4,388,360	5,435,611
<b>Higher Education:</b>					
University of Massachusetts.....	2,925,013	2,759,488	2,684,039	2,865,015	2,640,134
State Universities.....	922,383	864,161	851,118	834,453	762,043
Community Colleges.....	852,946	814,245	801,038	772,883	716,526
<b>Total business-type activities.....</b>	<b>6,736,773</b>	<b>7,156,341</b>	<b>7,802,695</b>	<b>8,860,711</b>	<b>9,554,314</b>
<b>Total Commonwealth expenses.....</b>	<b>\$ 55,347,437</b>	<b>\$ 53,300,361</b>	<b>\$ 52,447,546</b>	<b>\$ 52,941,385</b>	<b>\$ 51,741,031</b>
<b>REVENUES</b>					
<b>Program Revenues:</b>					
<b>Governmental Activities:</b>					
<b>Charges for services:</b>					
General government.....	\$ 361,105	\$ 352,291	\$ 458,320	\$ 443,869	\$ 464,592
Judiciary.....	108,766	111,384	114,170	120,293	128,198
Medicaid.....	1,226,108	471,539	297,566	258,032	185,463
Group health insurance.....	660,359	619,982	495,377	431,078	349,870
Energy and environmental.....	262,339	228,019	214,340	270,449	214,269
Housing and economic development*.....	165,365	150,690	142,320	142,387	221,340
Health and human services*.....	483,080	1,143,551	931,535	896,328	797,929
Transportation and public works.....	530,853	567,348	505,842	502,004	517,045
Early elementary and secondary education*.....	10,067	6,748	6,783	6,645	9,661
Public safety and homeland security.....	228,730	218,643	205,546	193,983	202,427
Labor and workforce development*.....	150,394	246,577	237,772	142,731	38,319
Lottery.....	5,049,536	5,041,329	4,940,151	4,630,205	4,626,777
Total Charges for services.....	9,236,702	9,158,100	8,549,722	8,038,003	7,755,891
Operating grants and contributions.....	13,121,648	12,836,122	12,909,908	14,217,481	12,771,164
Capital grants and contributions.....	30,699	18,726	79,733	168,912	779,403
<b>Total governmental activities.....</b>	<b>22,389,049</b>	<b>22,012,948</b>	<b>21,539,363</b>	<b>22,424,397</b>	<b>21,306,458</b>
<b>Business-type Activities:</b>					
<b>Charges for services:</b>					
Unemployment Compensation.....	1,897,495	1,923,476	1,982,602	1,945,801	1,727,964
<b>Higher Education:</b>					
University of Massachusetts.....	1,697,585	1,640,296	1,519,496	1,685,386	1,527,880
State Universities.....	558,170	533,347	523,979	530,078	479,900
Community Colleges.....	270,512	281,428	275,778	250,341	235,865
Operating grants and contributions.....	1,347,423	1,791,196	2,525,342	3,500,210	4,020,351
<b>Total business-type activities.....</b>	<b>5,771,185</b>	<b>6,169,743</b>	<b>6,827,197</b>	<b>7,911,816</b>	<b>7,991,960</b>
<b>Total Commonwealth program revenues.....</b>	<b>\$ 28,160,234</b>	<b>\$ 28,182,691</b>	<b>\$ 28,366,560</b>	<b>\$ 30,336,213</b>	<b>\$ 29,298,418</b>
<b>General Revenues and Other Changes in Net Position (all types consolidated):</b>					
<b>Governmental Activities:</b>					
Taxes (all types).....	\$ 23,319,168	\$ 22,599,332	\$ 21,403,426	\$ 21,066,430	\$ 19,034,227
Investment earnings and miscellaneous.....	1,131,754	985,713	1,393,094	991,230	1,474,995
Gain on sale of capital assets.....	-	-	-	-	-
Transfers.....	(1,205,141)	(1,096,061)	(1,155,955)	(860,904)	(864,697)
Transfers to/from MassDOT.....	-	-	-	-	(8,983,955)
<b>Total governmental activities.....</b>	<b>23,245,781</b>	<b>22,488,984</b>	<b>21,640,565</b>	<b>21,196,756</b>	<b>10,660,570</b>
<b>Business-type Activities:</b>					
Investment earnings and miscellaneous.....	\$ 428,771	\$ 395,228	\$ 376,327	\$ 695,308	\$ 553,088
Other losses.....	-	-	-	(10,746)	(12,125)
Transfers.....	1,205,141	1,096,061	1,155,955	860,904	864,697
<b>Total business -type activities.....</b>	<b>1,633,912</b>	<b>1,491,289</b>	<b>1,532,282</b>	<b>1,545,466</b>	<b>1,405,660</b>
<b>Total Commonwealth general revenues.....</b>	<b>\$ 24,879,693</b>	<b>\$ 23,980,273</b>	<b>\$ 23,172,847</b>	<b>\$ 22,742,222</b>	<b>\$ 12,066,230</b>
<b>CHANGES IN NET POSITION</b>					
Governmental activities.....	\$ (2,975,834)	\$ (1,642,088)	\$ (1,464,923)	\$ (459,521)	\$ (10,219,688)
Business-type activities.....	668,324	504,691	556,784	596,571	(156,694)
Current year restatements.....	-	-	-	-	-
<b>Total changes in net position including restatements.....</b>	<b>\$ (2,307,510)</b>	<b>\$ (1,137,397)</b>	<b>\$ (908,139)</b>	<b>\$ 137,050</b>	<b>\$ (10,376,382)</b>

\* NOTE: Reflects departmental and functional reorganizations as of the year implemented. Prior years not restated.

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	2009	2008	2007	2006	2005
\$	2,630,554	\$ 2,321,251	\$ 2,198,999	\$ 2,043,365	\$ 1,861,827
	1,138,179	993,424	852,124	731,931	694,245
	5,210,451	5,118,858	5,081,359	4,682,027	4,525,847
	10,842,549	9,769,893	9,044,420	8,150,576	7,705,717
	977,565	828,297	1,033,796	970,150	872,970
	426,808	537,691	488,883	438,731	419,329
	1,042,084	899,474	519,399	670,518	609,409
	7,452,418	6,726,961	6,414,249	6,585,029	6,441,959
	1,336,257	1,199,103	1,271,608	1,286,857	1,566,773
	3,210,200	2,932,143	1,870,250	1,948,769	8,226,508
	2,561,607	2,097,076	1,763,191	1,768,924	1,638,434
	474,438	340,668	641,134	387,132	358,839
	3,693,318	3,910,362	3,689,221	3,708,713	3,692,520
	1,116,278	1,152,162	1,079,551	985,474	861,265
	<b>42,112,704</b>	<b>38,827,362</b>	<b>35,948,184</b>	<b>34,358,196</b>	<b>39,488,186</b>
	3,475,027	1,554,885	1,430,130	1,337,565	1,662,955
	2,474,797	2,274,312	2,233,634	2,116,226	1,977,546
	736,972	733,842	624,470	568,592	514,122
	671,923	685,235	627,400	592,310	548,017
	<b>7,358,719</b>	<b>5,248,274</b>	<b>4,915,634</b>	<b>4,614,693</b>	<b>4,702,640</b>
\$	<b>49,471,424</b>	\$ <b>44,075,636</b>	\$ <b>40,863,818</b>	\$ <b>38,972,889</b>	\$ <b>44,190,826</b>
\$	436,344	\$ 414,614	\$ 564,347	\$ 451,753	\$ 492,750
	123,819	124,542	118,652	115,443	105,072
	180,380	176,471	172,136	702,104	937,422
	230,456	209,008	151,604	131,611	111,342
	226,754	162,639	168,789	156,074	138,854
	178,011	185,019	1,892	6,245	3,515
	718,628	601,483	538,543	613,780	756,469
	494,733	477,420	461,217	448,349	478,154
	15,728	10,766	8,042	6,346	5,583
	175,069	153,641	126,962	135,846	112,350
	37,728	31,758	187,256	213,078	199,817
	4,643,592	4,905,509	4,656,110	4,726,339	4,698,935
	7,461,243	7,452,873	7,155,550	7,706,968	8,040,263
	12,059,019	9,271,936	8,849,046	8,347,822	7,961,904
	853,221	484,172	487,365	481,780	461,371
	<b>20,373,482</b>	<b>17,208,980</b>	<b>16,491,961</b>	<b>16,536,570</b>	<b>16,463,538</b>
	1,671,098	1,587,543	1,698,249	1,741,101	242,769
	1,419,932	1,160,513	1,194,393	1,076,875	424,184
	442,685	400,369	287,195	272,918	64,872
	219,986	204,190	190,808	175,418	122,828
	1,721,199	710,974	746,385	684,108	854,653
	<b>5,474,900</b>	<b>4,063,589</b>	<b>4,117,030</b>	<b>3,950,420</b>	<b>4,108,237</b>
\$	<b>25,848,382</b>	\$ <b>21,272,569</b>	\$ <b>20,608,991</b>	\$ <b>20,486,988</b>	\$ <b>20,571,775</b>
\$	18,499,273	\$ 21,174,430	\$ 20,001,189	\$ 18,668,322	\$ 17,580,271
	1,489,018	2,057,309	1,318,008	1,396,033	1,168,540
	-	-	-	26,300	-
	(1,070,652)	(1,178,030)	(1,167,367)	(1,022,320)	(926,715)
	-	-	-	-	-
	<b>18,917,639</b>	<b>22,053,709</b>	<b>20,151,830</b>	<b>19,068,335</b>	<b>17,822,096</b>
\$	140,227	\$ 270,145	\$ 315,908	247,181	228,643
	(11,530)	-	-	-	-
	1,070,652	1,178,030	1,167,367	1,022,320	926,715
	<b>1,199,349</b>	<b>1,448,175</b>	<b>1,483,275</b>	<b>1,269,501</b>	<b>1,155,358</b>
\$	<b>20,116,988</b>	\$ <b>23,501,884</b>	\$ <b>21,635,105</b>	\$ <b>20,337,836</b>	\$ <b>18,977,454</b>
\$	(2,821,583)	\$ 435,327	\$ 695,608	\$ 1,246,707	\$ (5,202,551)
	(684,470)	263,490	684,671	605,228	560,955
	(152,800)	-	-	-	-
\$	<b>(3,658,854)</b>	\$ <b>698,817</b>	\$ <b>1,380,279</b>	\$ <b>1,851,935</b>	\$ <b>(4,641,596)</b>

**Fund Balances, Governmental Funds**  
**Last Ten Fiscal Years**

*(Modified accrual basis of accounting)*

(Amounts in thousands)

	2014	2013	2012	2011	2010*
<b>Total Unreserved general fund.....</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>All Other Governmental Funds</b>					
Reserved.....	-	-	-	-	-
Unreserved:					
Special Revenue Funds.....	-	-	-	-	-
Capital Projects Funds.....	-	-	-	-	-
Permanent Trust Funds.....	-	-	-	-	-
Total Unreserved.....	-	-	-	-	-
<b>Total all other governmental funds.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total governmental fund balances.....</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

\* 2010 has been restated for GASB 54 presentation. Years prior have not been restated.

**Fund balances (deficits) GASB 54 :**

Nonspendable.....	\$ 1,116	\$ 914	\$ 914	\$ 914	\$ 5,914
Restricted.....	1,517,555	1,557,928	2,195,287	1,675,055	1,905,749
Committed.....	2,249,906	2,324,228	2,404,158	2,020,009	2,166,175
Assigned.....	510,353	595,085	574,621	750,462	156,483
Unassigned.....	340,505	391,795	1,143,978	821,188	351,395
<b>Total governmental fund balances.....</b>	<b>\$ 4,619,434</b>	<b>\$ 4,869,951</b>	<b>\$ 6,318,958</b>	<b>\$ 5,267,628</b>	<b>\$ 4,585,716</b>

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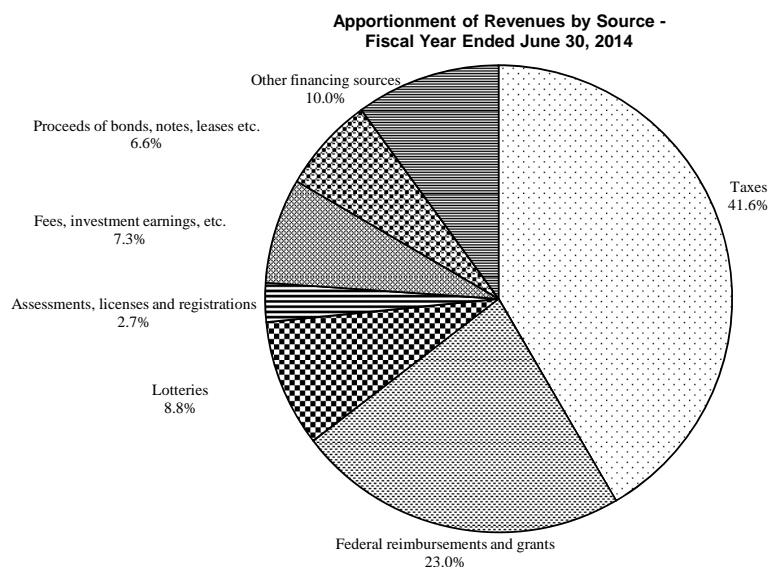
2009*	2008*	2007*	2006*	2005*
<b>\$ 1,734,822</b>	<b>\$ 3,171,278</b>	<b>\$ 4,899,154</b>	<b>\$ 4,922,074</b>	<b>\$ 4,067,885</b>
1,401,985	1,809,058	1,496,094	1,361,980	1,392,209
2,044,674	2,437,897	1,587,596	1,476,440	91,913
(125,138)	(360,570)	(251,985)	(497,300)	(503,441)
5,000	5,000	5,000	-	-
1,924,535	2,082,327	1,340,611	979,140	(411,528)
<b>3,326,520</b>	<b>3,891,385</b>	<b>2,836,705</b>	<b>2,341,120</b>	<b>980,681</b>
<b>\$ 5,061,342</b>	<b>\$ 7,062,663</b>	<b>\$ 7,735,859</b>	<b>\$ 7,263,194</b>	<b>\$ 5,048,566</b>

**Ten-Year Schedule of Revenues and Other Financing Sources**  
**All Governmental Fund Types - Fund Perspective**  
*(Modified Accrual Basis of Accounting)*

(Amounts in millions)

	2014	% Total	2013	% Total	2012	% Total	2011	% Total	2010
Taxes.....	\$ 23,786	41.6	\$ 22,391	40.5	\$ 21,533	39.6	\$ 20,854	38.7	\$ 18,991
Federal reimbursements.....	9,417	16.5	8,981	16.2	8,934	16.4	10,066	18.8	9,453
Federal grants.....	3,730	6.5	3,887	7.0	4,051	7.5	4,311	8.0	4,097
Lotteries.....	5,049	8.8	5,042	9.1	4,944	9.1	4,631	8.6	4,628
Assessments.....	1,080	1.8	1,093	2.0	1,024	1.9	980	1.8	965
Motor vehicle licenses and registrations.....	495	0.9	487	0.9	474	0.9	461	0.9	463
Fees, investment earnings, etc.....	4,152	7.3	3,750	6.8	3,823	7.0	3,246	6.0	3,365
Issuance of general and special obligation bonds...	2,360	4.1	1,471	2.7	2,902	5.3	2,233	4.1	2,419
Issuance of refunding bonds.....	1,236	2.2	1,913	3.5	388	0.7	888	1.6	538
Bond premiums.....	193	0.3	398	0.7	260	0.5	130	0.2	16
Proceeds of capital lease.....	11	-	1	-	4	-	12	-	17
Other financing sources.....	5,701	10.0	5,876	10.6	6,033	11.1	6,086	11.3	6,027
Total revenues and other financing sources.....	<u>\$ 57,210</u>	<u>100.0</u>	<u>\$ 55,290</u>	<u>100.0</u>	<u>\$ 54,370</u>	<u>100.0</u>	<u>\$ 53,898</u>	<u>100.0</u>	<u>\$ 50,979</u>

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% Total	2009	% Total	2008	% Total	2007	% Total	2006	% Total	2005	% Total
37.3	\$ 18,354	36.9	\$ 21,120	42.1	\$ 19,985	40.5	\$ 18,754	39.7	\$ 17,671	40.6
18.5	9,392	18.9	7,037	14.0	6,847	13.9	6,350	13.5	6,053	13.9
8.0	3,510	7.0	2,681	5.4	2,489	5.0	2,479	5.3	2,369	5.4
9.1	4,650	9.3	4,915	9.8	4,670	9.5	4,739	10.0	4,705	10.8
2.0	929	1.9	858	1.8	860	1.7	850	1.9	831	1.9
0.9	383	0.8	376	0.7	380	0.8	361	0.8	401	0.9
6.6	3,204	6.4	3,546	7.1	2,875	5.8	3,270	7.0	3,213	7.5
4.7	2,042	4.1	1,281	2.6	3,104	6.3	4,445	9.4	1,371	3.1
1.1	390	0.8	-	-	1,428	2.9	633	1.3	1,385	3.2
-	99	0.2	25	-	129	0.3	47	0.1	(17)	-
-	18	0.0	17	-	21	-	30	0.1	58	0.1
11.8	6,817	13.7	8,280	16.5	6,743	13.6	5,232	11.1	5,493	12.6
100.0	\$ 49,788	100.0	\$ 50,136	100.0	\$ 49,402	100.0	\$ 47,190	100.0	\$ 43,533	100.0

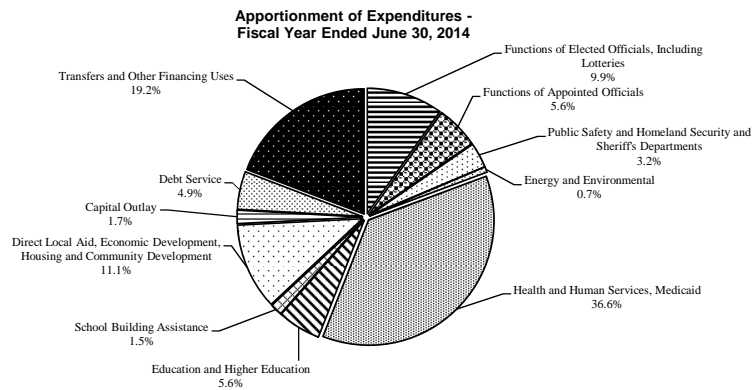
**Ten-Year Schedule of Expenditures and Other Financing Uses by Secretariat**  
**All Governmental Fund Types - Fund Perspective**  
*(Modified Accrual Basis of Accounting)*

(Amounts in millions)

	2014	% Total	2013	% Total	2012	% Total	2011	% Total	2010	% Total
Legislature.....	\$ 56	0.1	\$ 57	0.1	\$ 58	0.1	\$ 58	0.1	\$ 59	0.1
Judiciary.....	816	1.4	792	1.4	757	1.4	771	1.4	769	1.5
Inspector General.....	6	-	6	-	3	-	4	0.0	4	0.0
Governor and Lieutenant Governor.....	5	-	6	-	7	-	5	0.0	5	0.0
Secretary of the Commonwealth.....	51	0.1	49	0.1	41	0.1	45	0.1	52	0.1
Treasurer and Receiver-General.....	5,327	9.5	5,307	9.5	5,282	9.9	5,084	9.6	4,862	9.4
Auditor of the Commonwealth.....	18	-	18	-	17	-	18	0.0	18	0.0
Attorney General.....	88	0.2	76	0.1	55	0.1	34	0.1	52	0.1
Ethics Commission.....	2	-	2	-	2	-	2	0.0	2	0.0
District Attorney.....	115	0.2	115	0.2	110	0.2	104	0.2	102	0.2
Office of Campaign and Political Finance.....	1	-	1	-	1	-	3	0.0	1	0.0
Sheriff's Department.....	565	1.0	541	1.0	529	1.0	514	1.0	394	0.8
Disabled Persons Protection Commission.....	2	-	2	-	2	-	2	0.0	2	0.0
Board of Library Commissioners.....	25	-	25	-	24	-	25	0.0	28	0.1
Massachusetts Gaming Commission.....	23	-	14	-	1	-	-	-	-	-
Comptroller.....	16	-	14	-	14	-	14	0.0	13	0.0
Administration and finance.....	2,296	4.0	2,295	4.1	1,949	3.7	1,852	3.3	1,686	3.3
Energy and environmental.....	410	0.7	365	0.6	351	0.7	368	0.7	403	0.8
Housing and communities development.....	-	-	-	-	-	-	-	-	-	-
Early education and care.....	-	-	-	-	-	-	-	-	-	-
Health and human services.....	6,957	12.1	7,384	13.1	7,301	13.6	6,791	12.8	6,655	12.9
Transportation and public works.....	-	-	-	-	-	-	-	-	474	0.9
Massachusetts department of transportation.....	2,296	4.0	1,785	3.1	1,679	3.1	2,086	3.9	1,209	2.3
Executive office of education*.....	3,201	5.6	3,008	5.3	3,069	5.8	3,232	6.1	2,968	5.8
Center for Health and Information Analysis.....	26	-	9	-	-	-	-	-	-	-
Massachusetts school building assistance.....	869	1.5	1,037	1.8	975	1.8	791	1.5	973	1.9
Higher education.....	-	-	-	-	-	-	-	-	-	-
Public safety and homeland security.....	1,274	2.2	1,296	2.3	1,208	2.3	1,146	2.2	1,282	2.5
Housing and economic development*.....	1,035	1.8	988	1.7	999	1.9	1,082	2.0	1,060	2.1
Labor and workforce development*.....	330	0.6	350	0.6	455	0.9	478	0.9	447	0.9
Elder affairs*.....	-	-	-	-	-	-	-	-	-	-
Consumer affairs*.....	-	-	-	-	-	-	-	-	-	-
Labor*.....	-	-	-	-	-	-	-	-	-	-
Medicaid.....	14,035	24.4	12,286	21.7	11,708	22.0	12,124	22.8	10,678	20.8
Pension.....	865	1.5	878	1.5	801	1.5	744	1.4	587	1.1
Direct local aid.....	5,353	9.3	5,179	9.1	4,991	9.4	4,846	9.1	5,030	9.8
Capital outlay:										
Local aid.....	0	-	-	-	-	-	-	-	1	-
Capital acquisition and construction.....	999	1.7	854	1.5	847	1.6	885	1.7	1,300	2.5
Debt service.....	2,769	4.8	2,754	4.9	2,504	4.7	2,220	4.2	2,407	4.7
Principal on current refunding.....	159	0.3	230	0.4	-	-	-	-	-	-
Other financing uses:										
Payments to refunding bond escrow agent.....	562	1.0	2,046	3.6	388	0.7	945	1.8	537	1.0
Transfers.....	6,907	12.0	6,972	12.3	7,189	13.5	6,947	13.1	7,395	14.4
<b>Total expenditures and other financing uses.....</b>	<b>\$ 57,461</b>	<b>100.0</b>	<b>\$ 56,739</b>	<b>100.0</b>	<b>\$ 53,319</b>	<b>100.0</b>	<b>\$ 53,217</b>	<b>100.0</b>	<b>\$ 51,455</b>	<b>100.0</b>
<b>Change in Governmental Fund Balance.....</b>	<b>\$ (251)</b>		<b>\$ (1,448)</b>		<b>\$ 1,051</b>		<b>\$ 681</b>		<b>\$ (476)</b>	

\* NOTE: Reflects departmental and functional reorganizations as of the year implemented. Prior years not restated.

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2009	% Total	2008	% Total	2007	% Total	2006	% Total	2005	% Total
\$ 60	0.1	\$ 58	0.1	\$ 59	0.1	\$ 55	0.1	\$ 50	0.1
797	1.5	796	1.6	799	1.6	660	1.5	580	1.4
3	0.0	3	0.0	3	0.0	3	0.0	3	-
8	0.0	9	0.0	5	0.0	5	0.0	5	-
51	0.1	51	0.1	52	0.1	44	0.1	46	0.1
5,097	9.8	5,089	10.0	4,712	9.6	4,803	10.7	4,706	11.0
19	0.0	19	0.0	18	0.0	18	0.0	16	-
53	0.1	45	0.1	62	0.1	52	0.1	70	0.2
2	-	2	-	2	-	1	-	1	-
112	0.2	111	0.2	102	0.2	94	0.2	84	0.2
1	-	1	-	2	-	1	-	1	-
296	0.6	295	0.6	272	0.6	247	0.5	216	0.5
3	-	2	-	2	-	2	-	2	-
37	0.1	36	0.1	10	0.0	8	0.0	7	-
-	-	-	-	-	-	-	-	-	-
14	0.0	14	0.0	14	0.0	14	0.0	12	-
1,709	3.4	1,528	3.1	1,849	3.9	1,651	3.9	1,536	3.5
352	0.7	312	0.6	318	0.6	282	0.6	238	0.6
-	-	-	-	402	0.8	536	1.2	483	1.1
-	-	560	1.1	518	1.1	482	1.1	-	-
6,684	12.9	6,423	12.6	5,907	12.1	5,865	13.0	6,208	14.5
389	0.8	347	0.7	350	0.7	282	0.6	316	0.7
-	-	-	-	-	-	-	-	-	-
2,920	5.6	2,205	4.3	2,048	4.2	1,978	4.4	2,990	7.0
-	-	-	-	-	-	-	-	-	-
657	1.3	765	1.5	1,411	2.9	2,330	5.2	-	-
-	-	131	0.3	126	0.3	106	0.2	114	0.3
1,416	2.7	1,407	2.8	1,238	2.5	1,165	2.6	1,053	2.5
793	1.5	710	1.4	512	1.0	384	0.9	346	0.8
398	0.8	308	0.6	81	0.2	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
10,843	20.9	9,770	19.2	9,044	18.5	8,151	18.1	7,706	18.0
647	1.2	368	0.7	373	0.8	346	0.8	439	1.0
5,208	10.1	5,108	10.1	5,072	10.4	4,674	10.4	4,515	10.5
-	-	-	-	-	-	-	-	-	-
3	0.0	10	0.0	9	0.0	8	0.0	11	-
2,514	4.9	1,698	3.3	1,724	3.5	1,754	3.9	1,863	4.3
2,410	4.7	2,486	4.9	2,538	5.2	2,088	4.6	1,719	4.0
-	-	-	-	-	-	-	-	-	4.0
-	-	-	-	-	-	-	-	-	-
410	0.8	-	-	1,520	3.1	633	1.4	1,153	2.7
7,887	15.2	10,141	20.0	7,781	15.9	6,253	13.9	6,419	15.0
<hr/>									
\$ 51,789	100.0	\$ 50,810	100.0	\$ 48,935	100.0	\$ 44,975	100.0	\$ 42,908	104.0
<hr/>									
\$ (2,001)		\$ (674)		\$ 467		\$ 2,215		\$ 624	

## Personal Income by Industry Last Ten Calendar Years

(Amounts in millions)

	2013	2012	2011	2010	2009
<b>Total personal income.....</b>	<b>\$ 381,271</b>	<b>\$ 363,944</b>	<b>\$ 352,243</b>	<b>\$ 336,400</b>	<b>\$ 324,680</b>
Unearned income.....	91,615	87,333	83,338	81,190	78,336
Farm earnings.....	151	150	136	186	137
Nonfarm earnings.....	289,505	276,461	268,769	255,024	246,208
<b>Private earnings.....</b>	<b>252,939</b>	<b>243,502</b>	<b>236,763</b>	<b>223,784</b>	<b>215,396</b>
Agricultural services, forestry, fishing.....	373	426	409	383	376
Mining.....	201	113	124	97	101
Construction.....	14,759	13,426	12,526	11,687	11,717
<b>Manufacturing.....</b>	<b>25,341</b>	<b>26,375</b>	<b>25,387</b>	<b>25,108</b>	<b>23,290</b>
Durable goods.....	17,977	19,223	18,319	18,053	16,466
Nondurable goods.....	7,364	7,152	7,069	7,055	6,824
Transportation and utilities.....	7,083	6,742	6,604	6,208	6,029
Wholesale trade.....	13,483	12,979	13,082	12,501	12,458
Retail trade.....	13,565	13,333	12,891	12,599	12,255
Services.....	178,134	170,109	165,740	155,202	149,171
<b>Government.....</b>	<b>36,567</b>	<b>32,959</b>	<b>32,006</b>	<b>31,240</b>	<b>30,812</b>
Federal, civilian.....	4,792	5,442	5,426	5,431	5,314
Military.....	943	1,221	1,245	1,260	1,220
State and local.....	30,832	26,296	25,335	24,550	24,278
Personal income tax revenue (fiscal year, statutory basis)....	\$ 12,831	\$ 11,911	\$ 11,576	\$ 10,110	\$ 10,584
Total personal income.....	381,271	363,944	352,243	336,400	324,680
Average Effective Rate.....	3.4%	3.3%	3.3%	3.0%	3.3%
Highest Earned Income Tax Rate.....	5.3%	5.3%	5.3%	5.3%	5.3%

*Sources:* U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System and the Massachusetts Department of Revenue.  
Average effective rate is individual income tax revenue divided by personal income.

*Note:* U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System adjusted its methodology in 2008.  
Prior years restated.

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2008	2007	2006	2005	2004
\$ 335,722	\$ 322,543	\$ 304,855	\$ 282,368	\$ 271,086
80,365	71,529	65,384	55,211	51,966
180	135	131	126	147
255,176	250,878	239,340	227,030	218,974
<b>225,122</b>	<b>222,302</b>	<b>211,900</b>	<b>200,639</b>	<b>193,996</b>
383	405	396	400	371
181	301	363	311	297
13,671	14,900	15,193	14,460	13,976
<b>25,449</b>	<b>25,865</b>	<b>24,698</b>	<b>24,485</b>	<b>24,356</b>
18,170	18,464	17,639	17,539	17,547
7,280	7,401	7,059	6,947	6,809
6,235	5,891	5,706	5,456	5,388
13,412	13,025	12,538	11,478	11,529
12,545	12,960	12,952	13,188	12,900
153,246	148,954	140,056	130,864	125,180
<b>30,054</b>	<b>28,577</b>	<b>27,439</b>	<b>26,392</b>	<b>24,978</b>
5,157	5,045	4,873	4,700	4,626
1,092	1,025	1,005	1,009	934
23,806	22,507	21,561	20,683	19,419
\$ 12,484	\$ 11,400	\$ 10,483	\$ 9,690	\$ 8,830
335,722	322,543	304,855	282,368	271,086
3.7%	3.5%	3.4%	3.4%	3.3%
5.3%	5.3%	5.3%	5.3%	5.3%

**Commonwealth of Massachusetts**  
**Personal Income Tax Filers and Liability by Income Level**  
**Calendar (Tax) Years 2012 and 2003**

(Amounts, except income level are in thousands)

**Calendar Year 2012 (or Fiscal Year 2013)**

<b>Income Level</b>	<b>Number of Filers</b>	<b>Percentage of Total</b>	<b>Personal Income Tax Liability</b>	<b>Percentage of Total</b>
\$100,001 and higher.....	651,136	18.2%	\$ 8,525,382	70.6%
\$75,001 - \$100,000.....	286,030	8.0%	1,064,216	8.8%
\$50,001 - \$75,000.....	459,265	12.8%	1,163,314	9.6%
\$25,001 - \$50,000.....	771,026	21.6%	1,014,322	8.4%
\$10,001 - \$25,000.....	674,488	18.9%	277,196	2.3%
\$10,000 and lower.....	733,227	20.5%	30,289	0.3%
Total.....	<u>3,575,172</u>	<u>100.0%</u>	<u>\$ 12,074,719</u>	<u>100.0%</u>

**Calendar Year 2003 (or Fiscal Year 2004)**

<b>Income Level</b>	<b>Number of Filers</b>	<b>Percentage of Total</b>	<b>Personal Income Tax Liability</b>	<b>Percentage of Total</b>
\$100,001 and higher.....	405,104	12.3%	\$ 4,416,981	54.8%
\$75,001 - \$100,000.....	266,179	8.1%	1,008,220	12.5%
\$50,001 - \$75,000.....	450,676	13.7%	1,164,688	14.4%
\$25,001 - \$50,000.....	807,287	24.6%	1,127,217	14.0%
\$10,001 - \$25,000.....	674,895	20.5%	317,698	3.9%
\$10,000 and lower.....	681,768	20.7%	25,383	0.3%
Total.....	<u>3,285,909</u>	<u>100.0%</u>	<u>\$ 8,060,187</u>	<u>100.0%</u>

*Source: Massachusetts Department of Revenue - 2012 is the most recent tax year for which complete data are available.*

See Independent Auditor's Report



## Ten-Year Schedule of Per Capita General Long-Term Bonded Debt and Capital Leases

(Amounts in thousands, except for percentages)

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities		Total Primary Government	Prior Year Personal Income	Massachusetts Resident Population (4)	Debt as a Percentage of Personal Income	Amount of Debt Per Capita
	Bonded Debt (1)	Capital Leases (2)	Bonded Debt (2)	Capital Leases					
2014	\$ 22,419,852	\$ 55,878	\$ 4,243,731	\$ 14,529	\$ 26,733,990	\$ 381,271,000	6,693	7.0%	\$ 3.99
2013	21,513,039	50,831	3,736,432	19,299	25,319,601	363,943,750	6,646	7.0%	3.81
2012	21,907,683	60,457	3,370,389	23,327	25,361,856	352,242,750	6,557	7.2%	3.87
2011	20,875,055	60,975	3,277,413	31,105	24,244,548	336,399,750	6,518	7.2%	3.72
2010	19,726,507	76,608	2,731,124	40,924	22,575,163	324,680,250	6,469	7.0%	3.49
2009	19,264,569	109,765	2,103,675	58,885	21,536,894	335,721,500	6,432	6.4%	3.35
2008	18,734,440	83,741	2,026,551	67,631	20,912,363	322,542,500	6,410	6.5%	3.26
2007	18,736,961	81,351	1,624,617	83,443	20,526,372	304,855,000	6,410	6.7%	3.20
2006	18,461,406	74,552	1,519,727	87,798	20,143,483	282,367,750	6,403	7.1%	3.15
2005	17,856,799	71,018	1,421,557	101,596	19,450,970	271,086,000	6,412	7.2%	3.03

(1) Excludes Massachusetts School Building Authority debt. Amounts of bonded debt for governmental activities are the amount of debt for statutory debt calculation purposes.

For fiscal 2004 through 2012, debt outstanding was defined in state finance law as net proceeds of debt issued. State finance law was amended, effective January 1, 2013, to change the statutory definition of outstanding debt from net proceeds to principal. Therefore, fiscal years prior to 2013 are calculated using net proceeds; fiscal 2013 and thereafter are calculated using principal.

(2) Governmental capital leases exclude the lease between the Commonwealth and the Route 3 North Transportation Improvement Association, a discretely presented component unit.

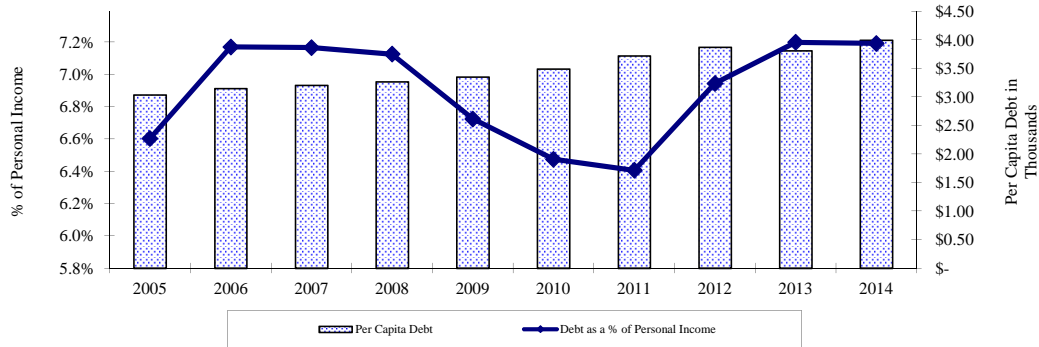
(3) Business-type activities bond debt includes notes payable of the Institutions of Higher Education.

(4) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of July 1 of the previous year.

Source: - [HTTP://www.fedstats.gov](http://www.fedstats.gov) (US Census Bureau.)

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### Ten-Year Per Capita Debt and Capital Leases



### Ten Year Schedule of Outstanding Direct Debt and Statutory Debt Limit

(Amounts in thousands)

	2014 (3)	2013 (3)	2012	2011	2010
Outstanding principal as of June 30 (1).....	\$ 22,419,852	\$ 21,513,039	\$ 21,433,553	\$ 20,875,056	\$ 19,509,819
Plus/(less) amounts excluded:					
Net amortized (discount)/premium and issuance costs.....	-	-	474,130	335,078	216,688
Total net proceeds/principal.....	22,419,852	21,513,039	21,907,683	21,210,134	19,726,507
Less net proceeds/principal of direct debt excluded from statutory debt limit:					
Central artery project bonds.....	(1,241,263)	(1,303,013)	(1,342,841)	(1,356,606)	(1,243,250)
Accelerated bridge program.....	(1,756,395)	(1,088,605)	(1,095,385)	(676,125)	-
County debt assumed.....	-	-	(75)	(150)	(225)
(Premium)/discount.....	-	-	(474,130)	(335,078)	216,688
Grant anticipation notes (2).....	(178,390)	(349,100)	(510,385)	(666,790)	(997,467)
School Modernization and Reconstruction Trust Bonds.....	(723,917)	(764,337)	(795,009)	(824,279)	(894,502)
Convention center bonds.....	(638,700)	(638,700)	(638,700)	(643,715)	(643,715)
MBTA forward funding bonds.....	(207)	(207)	(207)	(44,472)	(165,559)
Special obligation gas bonds.....	(249,705)	(296,395)	(337,545)	(371,665)	(419,785)
Outstanding direct debt, net proceeds/principal.....	17,631,275	17,072,682	16,713,406	16,291,254	15,578,692
Statutory debt limit*.....	18,819,675	17,923,500	17,070,000	18,042,424	17,183,261
Debt margin (debt limit less direct debt).....	\$ 1,188,400	\$ 850,818	\$ 356,594	\$ 1,751,170	\$ 1,604,569
Debt margin as a percentage of direct debt limit.....	6.3%	4.7%	2.1%	9.7%	9.3%

(1) Exclusive of the Massachusetts School Building Authority debt

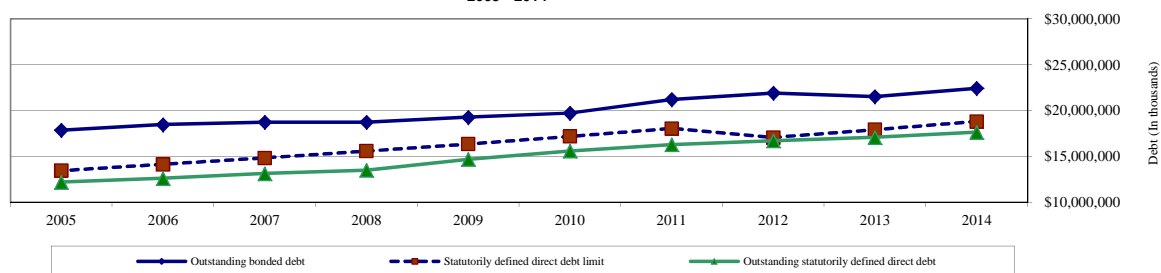
(2) Inclusive of crossover refunding amounts

(3) For fiscal 2004 through 2012, debt outstanding was defined in state finance law as net proceeds of debt issued. State finance law was amended, effective January 1, 2013, to change the statutory definition of outstanding debt from net proceeds to principal. Therefore, fiscal years prior to 2013 are calculated using net proceeds; fiscal 2013 and thereafter are calculated using principal.

\* Section 60A of Chapter 165 of the Acts of 2012, as amended, reset the statutory defined debt limit, effective July 1, 2012, to \$17.070 billion

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**Outstanding Bonded Debt, Statutory Direct Debt and Statutory Debt Limit  
2005 - 2014**



2009	2008	2007	2006	2005
\$ 19,047,679	\$ 18,611,105	\$ 18,634,913	\$ 18,348,733	\$ 17,785,862
216,890	123,335	102,048	112,673	70,937
19,264,569	18,734,440	18,736,961	18,461,406	17,856,799
(1,401,581)	(1,434,654)	(1,462,870)	(1,476,287)	(1,336,741)
-	-	-	-	-
(300)	(375)	(450)	(525)	(600)
216,890	123,335	102,048	112,673	70,937
(1,134,797)	(1,536,206)	(1,666,690)	(1,789,876)	(1,908,015)
(921,751)	(946,285)	(946,285)	(1,000,002)	(500,000)
(643,715)	(643,715)	(643,715)	(643,715)	(693,400)
(231,000)	(309,203)	(368,873)	(416,830)	(511,546)
(456,984)	(482,953)	(617,226)	(647,551)	(792,148)
14,691,331	13,504,384	13,132,900	12,599,293	12,185,286
16,365,011	15,585,725	14,843,547	14,136,712	13,463,535
<u>\$ 1,673,680</u>	<u>\$ 2,081,341</u>	<u>\$ 1,710,647</u>	<u>\$ 1,537,419</u>	<u>\$ 1,278,249</u>
<u>10.2%</u>	<u>13.4%</u>	<u>11.5%</u>	<u>10.9%</u>	<u>9.5%</u>

# **Ten Year Schedule of Pledged Revenue Coverage**

## **Special Obligation Highway Bonds (Motor Fuels Taxation and Motor Vehicle Fees), Convention Center Bonds (Tax Incremental Financing) and Grant Anticipation Notes (Federal Highway Grants)**

(Statutory Basis, Amounts in Thousands, Except for Federal Highway Appropriations which are in Billions and on a Federal Fiscal Year, and Except for Ratios)

	2014	2013	2012	2011	2010
<b>Highway Bonds</b>					
For issues prior to December 2010, the bonds are secured by a pledge of 6.86¢ of the 21¢ per gallon state gasoline excise tax for FY2008 and before. For FY2009 and beyond, the pledge is up to 10¢ of the tax. Bonds issued in December 2010, May 2012 and November 2013 (Commonwealth Transportation Fund, or "CTF bonds") are secured by a senior lien on 17.085 cents of the total 24 cent per gallon gasoline tax, the full 21 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), the full 19.1% of the average price per gallon tax on liquefied natural gas and all Registry of Motor Vehicle fees deposited in the Commonwealth Transportation Fund. Federal Build America Bonds subsidies are also pledged to all CTF bonds. The bonds also have a subordinate lien on 6.86¢ of the 24¢ per gallon gasoline tax not included in the senior lien. Revenues pledged to the bonds are available prior to use for any other purposes. Thus, operating expenses paid from the these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table. The 2010 bonds were issued as federally taxable Build America Bonds/Recovery Zone Economic Development Bonds; the programs provide an interest subsidy of 35-45% directly to the Commonwealth. The interest subsidy is shown as pledged funds and debt service is gross of the subsidy.					
<b>Pre-2010 Bond Issues</b>					
Tax Receipts.....	\$ 187,467	\$ 186,638	\$ 190,129	\$ 189,763	\$ 188,666
Operating Expenses.....	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 187,467	\$ 186,638	\$ 190,129	\$ 189,763	\$ 188,666
Annual Debt Service.....	\$ 52,228	\$ 58,922	\$ 58,939	\$ 59,453	\$ 58,931
Debt Service Coverage Ratio.....	3.59	3.17	3.23	3.19	3.20
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	AA+, Aa1, AAA	6469	AA+, Aa1, AAA	AA, Aa1, AAA	AA, Aa2, AA+
<b>Post-2010 Bond Issues (Includes Revenues in Excess of Those Needed to Pay Debt Service on Pre-2010 Highway Bonds)</b>					
Receipts.....	\$ 1,149,580	\$ 1,170,297	\$ 1,121,709	\$ 626,619	
Operating Expenses.....	N/A	N/A	N/A	N/A	
Net Available Revenues.....	\$ 1,149,580	\$ 1,170,297	\$ 1,121,709	\$ 626,619	
Annual Debt Service.....	\$ 69,921	\$ 58,108	\$ 32,623	\$ 14,318	
Debt Service Coverage Ratio.....	16.44	20.14	34.38	43.76	
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	NA, Aaa, AAA	NA, Aaa, AAA	NA, Aaa, AAA	NA, Aaa, AAA	
<b>Convention Center Bonds</b>					
These bonds are secured by amounts payable to the Convention Center Fund, which include certain hotel tax receipts in Boston, Cambridge, Springfield, surcharges on car rentals, parking, sightseeing tours and cruises and sales tax receipts in those cities. Revenues pledged to the bonds are available prior to use for any other purposes. Thus, operating expenses paid from the these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table.					
Receipts.....	\$ 109,879	\$ 100,631	\$ 94,234	\$ 84,905	\$ 75,432
Operating Expenses.....	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 109,879	\$ 100,631	\$ 94,234	\$ 84,905	\$ 75,432
Annual Debt Service.....	\$ 36,722	\$ 36,469	\$ 36,345	\$ 35,391	\$ 36,296
Debt Service Coverage Ratio.....	2.99	2.76	2.59	2.40	2.08
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	NA, A1, A	NA, A1, A	NA, A1, A	NA, A1, A	NA, A1, A
<b>Grant Anticipation Notes (GANS)</b>					
Notes issued prior to December 2010 ("Senior Federal Highway Notes" ) are secured by all federal highway reimbursements into the Grant Anticipation Note Trust fund, released by the Commonwealth once all debt service and reserve funding obligations of the notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than \$17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10 ¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund to be used for debt service, subject to appropriation. Notes issued in December 2010 ("Federal Highway Grant Anticipation Notes") are secured by all federal highway reimbursements after payment of debt service on the Senior Federal Highway Notes and also by any revenues pledged to the payment of pre-2010 and December 2010 Highway Bonds (as described above) in excess of debt service paid on those bonds. Revenues pledged to the notes are available prior to use for any other purposes. Thus, operating expenses paid from these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table. The 2010 bonds were issued as federally taxable Build America Bonds; the program provides an interest subsidy of 35% directly to the Commonwealth. The interest subsidy is shown as pledged funds and debt service is gross of the subsidy.					
<b>Pre-2010 GANS</b>					
Receipts.....	\$ 598,463	\$ 636,116	\$ 755,985	\$ 623,410	\$ 761,351
Operating Expenses.....	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 598,463	\$ 636,116	\$ 755,985	\$ 623,410	\$ 761,351
Annual Debt Service.....	\$ 176,215	\$ 174,467	\$ 184,394	\$ 188,379	\$ 196,248
Debt Service Coverage Ratio.....	3.40	3.65	4.10	3.31	3.88
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+ <sup>(2)</sup> , Aa2, AA+
<b>Amount Appropriated for National Federal Highway Spending (Federal Fiscal Year) (billions) (1).....</b>					
	\$ 43,449	\$ 43,427	\$ 43,896	\$ 44,323	\$ 43,040
<b>Post 2010 GANS (Includes Revenues in Excess of those Needed to Pay Debt Service on Pre-2010 Highway Bonds and GANS)</b>					
Receipts.....	\$ 1,503,272	\$ 1,575,266	\$ 1,674,485	\$ 909,546	
Operating Expenses.....	N/A	N/A	N/A	N/A	
Net Available Revenues.....	\$ 1,503,272	\$ 1,575,266	\$ 1,674,485	\$ 909,546	
Annual Debt Service.....	\$ 7,173	\$ 6,402	\$ 4,271	\$ 2,039	
Debt Service Coverage Ratio.....	209.58	246.04	392.10	446.01	
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	AA+, Aa1, AAA	AA+, Aa2, AAA	AA+, Aa2, AAA	AA+, Aa2, AAA	

(1) Source: The Federal Budget for Fiscal 2015, Historical Tables, Table 9.6 2014 is estimated. \*Uninsured rating, if available.

(2) Reflects rating recalibration

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2009	2008	2007	2006	2005
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\$ 189,246	\$ 194,785	\$ 148,047	\$ 239,469	\$ 196,210
N/A	N/A	N/A	N/A	N/A
\$ 189,246	\$ 194,785	\$ 148,047	\$ 239,469	\$ 196,210
\$ 58,924	\$ 56,535	\$ 58,867	\$ 56,545	\$ 48,378
3.21	3.45	2.51	4.24	4.06
AA+, Aa3, AA+	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA

\$ 73,918	\$ 78,984	\$ 66,347	\$ 55,052	\$ 50,561
N/A	N/A	N/A	N/A	N/A
\$ 73,918	\$ 78,984	\$ 66,347	\$ 55,052	\$ 50,561
\$ 36,293	\$ 35,600	\$ 34,486	\$ 33,964	\$ 18,350
2.04	2.22	1.92	1.62	2.76
NA, A1, A	NA, A2, A	A2, A	A2, A	A2, A

\$ 828,956	\$ 463,588	\$ 462,484	\$ 451,284	\$ 449,331
N/A	N/A	N/A	N/A	N/A
\$ 828,956	\$ 463,588	\$ 462,484	\$ 451,284	\$ 449,331
\$ 204,788	\$ 211,709	\$ 211,712	\$ 211,712	\$ 95,223
4.05	2.19	2.18	2.13	4.72
AA, Aa3, AA+	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA

\$ 39,358	\$ 36,747	\$ 34,373	\$ 33,975	\$ 31,433
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**Ten-Year Schedule of Percentage of Annual Debt Service Expenditures  
For General Bonded Debt to Total Non-Capital Expenditures - Fund Perspective  
All Governmental Fund Types**

(Amounts in thousands)

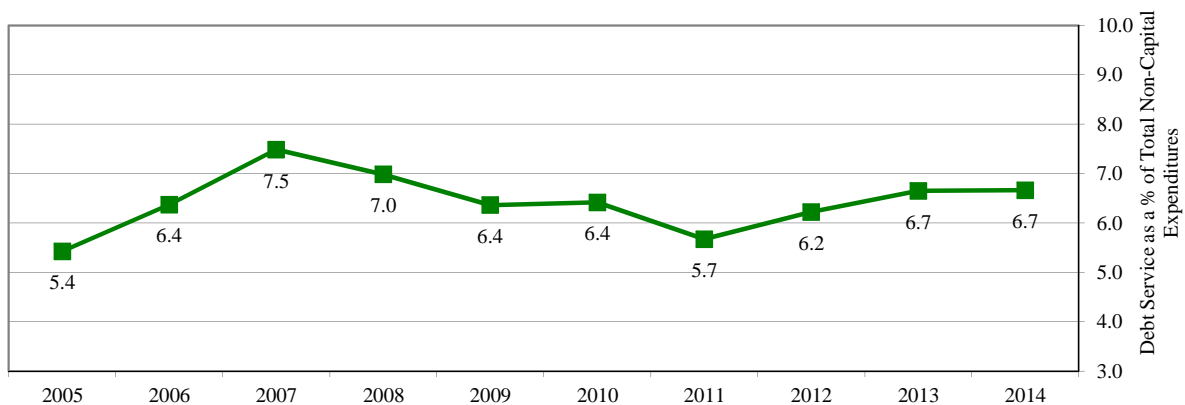
Fiscal year ended June 30	Debt service(1)	Total Non-capital expenditures(2)	Ratio (%)
2014	\$ 2,928,801	\$ 43,953,346	6.7
2013	2,753,715	41,403,978	6.7
2012	2,504,253	40,234,846	6.2
2011	2,219,667	39,126,733	5.7
2010	2,407,270	37,519,262	6.4
2009	2,409,590	37,878,441	6.4
2008	2,486,403	35,608,652	7.0
2007	2,538,134	33,918,074	7.5
2006	2,028,441	31,831,391	6.4
2005	1,719,489	31,699,602	5.4

(1) Business type activities debts are secured solely by leases between the Institutions of Higher Education and two blended building authorities.

(2) Expenditures are shown net of Massachusetts School Building Authority expenditures as they are school building assistance capital grants to local cities and towns.

See Independent Auditor's Report

**Debt Service to Non-Capital Expenditures Ratio 2005 - 2014**



## Component Units Revenue Bond Coverage For the Last Ten Fiscal Years

(Amounts in thousands)

Fiscal year ended June 30	Net revenues <sup>(1)</sup>	Debt service requirements <sup>(2)</sup>	Coverage Ratio (%)
2014	\$ 1,481,374	\$ 1,126,392	1.32
2013	1,585,500	1,244,358	1.27
2012	1,584,013	1,517,899	1.04
2011	1,444,813	1,170,149	1.23
2010	1,460,045	1,383,231	1.06
2009	1,825,018	1,066,175	1.71
2008	1,753,149	831,978	2.11
2007	1,725,941	853,752	2.02
2006	1,499,896	825,170	1.82
2005	1,613,858	766,686	2.10

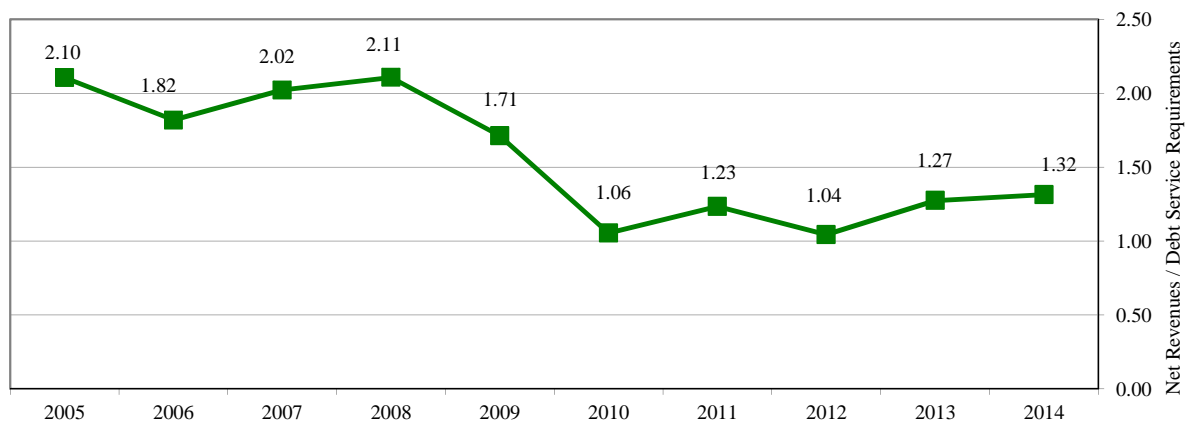
(1) Net revenues represent revenue pledged and available for the repayment of revenue bonds. In most cases, revenue pledged for the bonds is available prior to use for any other purposes. Thus operating expenses paid from these revenue sources are not applicable when calculating debt service coverage and are not subtracted from pledged revenues.

(2) Debt service requirements represent total debt service payments made less debt service paid on short-term borrowings of only those Authorities with revenue bonds outstanding.

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Source: Office of the Comptroller

### Component Units Revenue Bond Coverage 2005 - 2014



## Ten-Year Schedule of Massachusetts and United States Resident Population

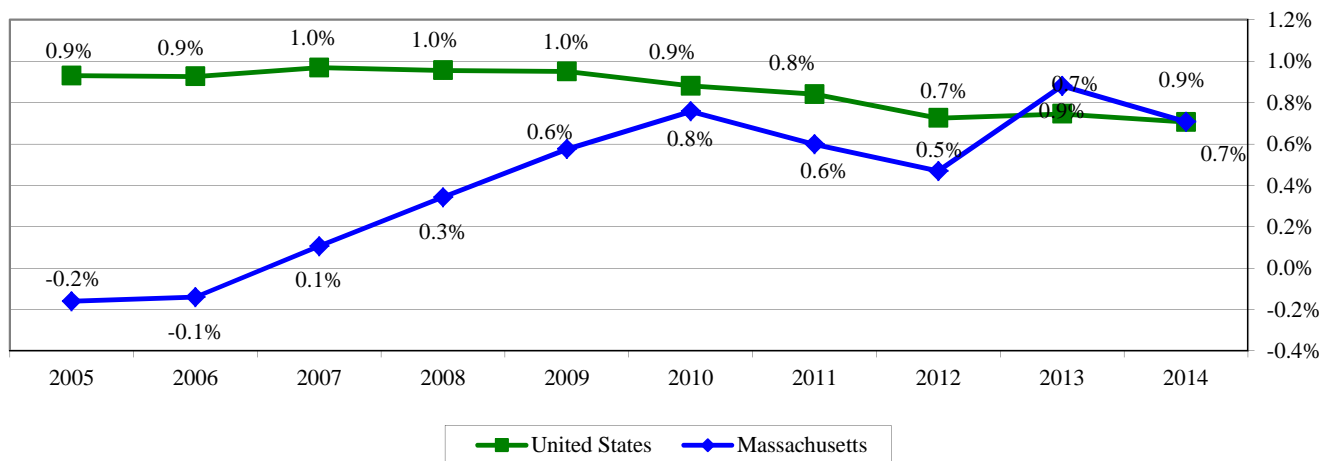
(Amounts in thousands)

Beginning of Fiscal Year	United States	% Change	Massachusetts Resident Population <sup>(1)</sup>	% Change	Massachusetts as % of U.S.
2014	316,129	0.7%	6,693	0.7%	2.1%
2013	313,914	0.7%	6,646	0.9%	2.1%
2012	311,592	0.7%	6,588	0.5%	2.1%
2011	309,350	0.8%	6,557	0.6%	2.1%
2010	306,772	0.9%	6,518	0.8%	2.1%
2009	304,094	1.0%	6,469	0.6%	2.1%
2008	301,231	1.0%	6,432	0.3%	2.1%
2007	298,380	1.0%	6,410	0.1%	2.1%
2006	295,517	0.9%	6,403	-0.1%	2.2%
2005	292,805	0.9%	6,412	-0.2%	2.2%

(1) Population estimates have been restated using most current United States Census Bureau Data. Population data is reported as of July 1 of the previous year and has been restated to most recent United States Census Bureau Data.

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### Massachusetts and United States Estimated Year- to- Year Population Change 2005 - 2014





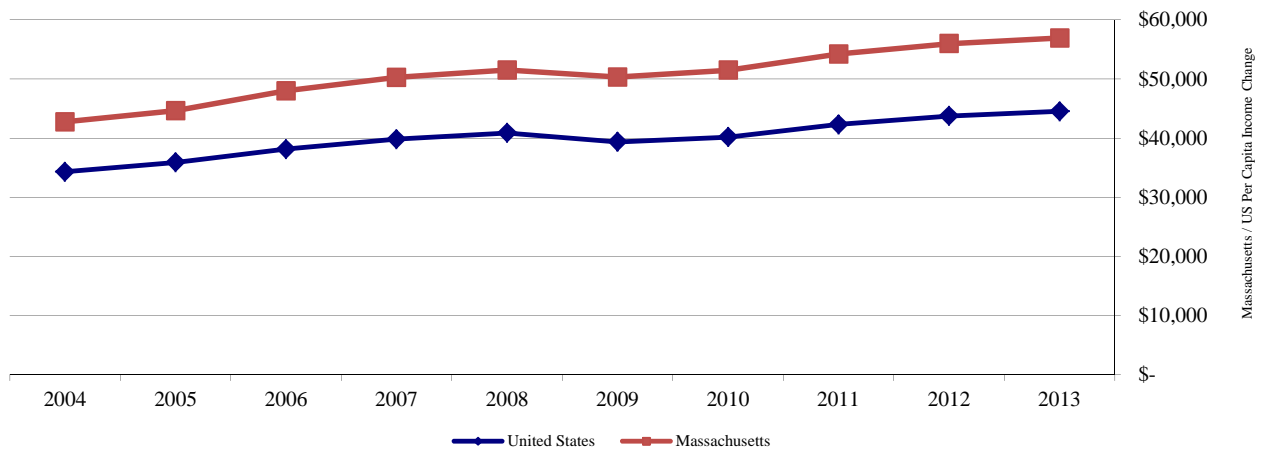
## Ten-Year Schedule of Massachusetts and United States Resident Per Capita Net Income

Calendar Year	United States	% Change	Massachusetts	% Change	Massachusetts as % of U.S.
2013	\$ 44,543	1.8%	\$ 56,923	1.7%	127.8%
2012	43,735	3.4%	55,976	3.2%	128.0%
2011	42,298	5.3%	54,218	5.3%	128.2%
2010	40,163	2.0%	51,488	2.4%	128.2%
2009	39,357	-3.7%	50,304	-2.4%	127.8%
2008	40,873	2.7%	51,515	2.5%	126.0%
2007	39,804	4.4%	50,257	4.7%	126.3%
2006	38,127	6.2%	47,993	7.5%	125.9%
2005	35,888	4.6%	44,646	4.5%	124.4%
2004	34,300	5.0%	42,726	5.2%	124.6%

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Source: Bureau of Economic Analysis, US Department of Commerce. Prior years restated due to revised estimates released on May 30, 2014.

**Massachusetts vs. United States Year-to-Year Per Capita Net Income  
Calendar Years 2004 - 2013**



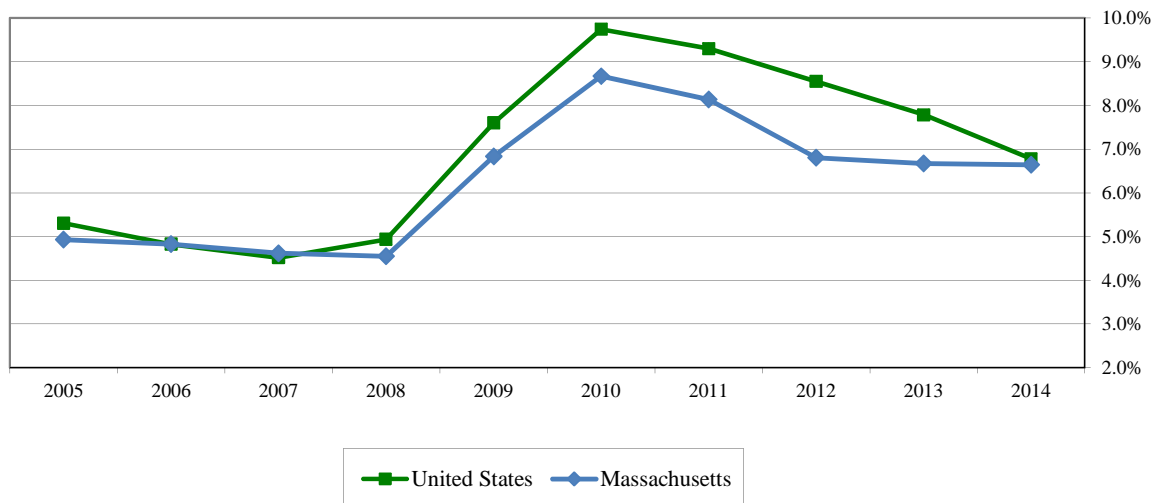
**Ten-Year Schedule of Fiscal Year Annual Average Civilian Labor Force,  
Unemployment and Unemployment Rates  
For Massachusetts and the United States**

(Amounts in thousands)

Fiscal Year	Massachusetts			United States			Massachusetts Rate as % of U.S. Rate
	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	
2014	3,492	232	6.6%	155,466	10,534	6.8%	98.1%
2013	3,477	232	6.7%	155,337	12,092	7.8%	85.7%
2012	3,455	235	6.8%	154,285	13,176	8.6%	79.6%
2011	3,497	284	8.1%	153,654	14,288	9.3%	87.5%
2010	3,484	302	8.7%	153,916	15,006	9.7%	89.0%
2009	3,479	238	6.8%	154,555	11,758	7.6%	89.9%
2008	3,446	157	4.6%	153,686	7,591	4.9%	92.2%
2007	3,432	158	4.6%	152,436	6,898	4.5%	102.2%
2006	3,399	164	4.8%	150,353	7,252	4.8%	100.0%
2005	3,376	166	4.9%	148,241	7,861	5.3%	92.6%

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**Massachusetts and United States Average Unemployment Rates  
FY2005 to FY2014**



Source: Federal Bureau of Labor Statistics, November 2014. Seasonally adjusted. Previous data has been updated by the Federal Bureau of Labor Statistics

**Largest Private Sector Massachusetts Employers 2014 and 2005**  
(Alphabetical Order)

2014			2005		
Employer	Headquarters	Product or Service	Employer	Headquarters	Product or Service
Bay State Medical Center, Inc.	Springfield	Hospital	Bay State Medical Center, Inc.	Springfield	Insurance
Beth Israel Deaconess Medical Center	Boston	Hospital	Beth Israel Deaconess Medical Center	Boston	Hospital
Boston Medical Center Corporation	Boston	Hospital	Boston Medical Center Corporation	Boston	Hospital
Boston University	Boston	University	Boston University		
Brigham and Women's Hospital, Inc.	Boston	Hospital	Brigham and Women's Hospital, Inc.	Boston	Hospital
DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket	DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket
EMC Corporation	Hopkinton	Computer Storage & Peripherals	EMC Corporation	Hopkinton	Computer Storage & Peripherals
General Hospital Corporation	Boston	Hospital	Friendly Ice Cream Corporation	Wilbraham	Food Service
Harvard University	Cambridge	University	General Hospital Corporation	Boston	Hospital
Massachusetts Institute of Technology	Cambridge	University	Harvard University	Cambridge	University
Partners Healthcare Systems, Inc.	Boston	Hospital	Massachusetts Institute of Technology	Cambridge	University
Raytheon Company	Lexington	Electronics / Defense	Raytheon Company	Lexington	Electronics / Defense
The Stop & Shop Supermarkets , Co.	Quincy	Supermarket	S & S Credit Company, Inc (Stop & Shop)	Quincy	Supermarket
Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket	Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket
Southcoast Hospitals Group	New Bedford	Hospital	Southcoast Hospitals Group	New Bedford	Hospital
State Street Bank and Trust Company	Boston	Banking	State Street Bank and Trust Company	Boston	Banking
The Children's Hospital Corporation	Boston	Hospital	The Children's Hospital Corporation	Boston	Hospital
Tufts University	Medford	University	UMASS Memorial Medical Center, Inc.	Worcester	Hospital
UMASS Memorial Medical Center, Inc.	Worcester	Hospital			

*Source: Massachusetts Executive Office of Labor and Workforce Development, Division of Unemployment Assistance - March 2014 survey. In addition, Bank of America NA, Home DepotUSA, Inc., Massachusetts CVS Pharmacy LLC, Target Corp, United Parcel Service, Inc and Wal-Mart Associates, Inc. are all large Massachusetts employers, but are headquartered outside of Massachusetts. Verizon New England is a subsidiary of Verizon Communications, headquartered in New York. The information is based on employers registered for unemployment insurance. The list may not include those employers who do business in Massachusetts under multiple legal corporations and those who register each store, facility or franchisee as a separate employer.*

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**Full Time Equivalent Employees  
By Function / Program  
Last Ten Years**

Functions / Programs	2014	2013	2012	2011	2010
General government.....	7,637	7,627	7,408	8,020	8,280
Judiciary.....	7,195	7,297	7,087	7,111	7,388
Energy and environmental affairs.....	2,629	2,684	2,685	2,737	2,783
Health and human services.....	21,496	21,996	21,042	21,011	21,401
Transportation and construction.....	4,301	4,243	4,230	4,209	4,127
Education.....	1,099	928	922	1,037	1,575
Public safety and homeland security.....	17,215	16,907	16,503	15,785	15,857
Housing and economic development.....	891	868	845	831	846
Higher Education:					
University of Massachusetts.....	14,066	14,688	14,159	14,159	14,031
State universities.....	4,969	4,856	4,747	4,487	4,282
Community colleges.....	4,990	5,111	4,834	4,684	4,276
<b>Totals.....</b>	<b>86,488</b>	<b>87,205</b>	<b>84,462</b>	<b>84,070</b>	<b>84,846</b>
<b>Percentage Change .....</b>	<b>-0.8%</b>	<b>3.2%</b>	<b>0.5%</b>	<b>-0.9%</b>	<b>2.2%</b>

Source: Office of the State Comptroller

"Education" includes the Department of Elementary & Secondary Education, Executive Office of Education, Board of Higher Education and in 2009 Early Education and Care. Transportation and construction includes MassDOT. FTE's are rounded. Prior years not restated for changes. Includes approximately 6,600 FTEs transferred to the Commonwealth's payroll in FY09 and FY10 in the categories of Higher Education, Transportation and construction and Public safety and homeland security (see page 23 of Management's Discussion and Analysis for details).

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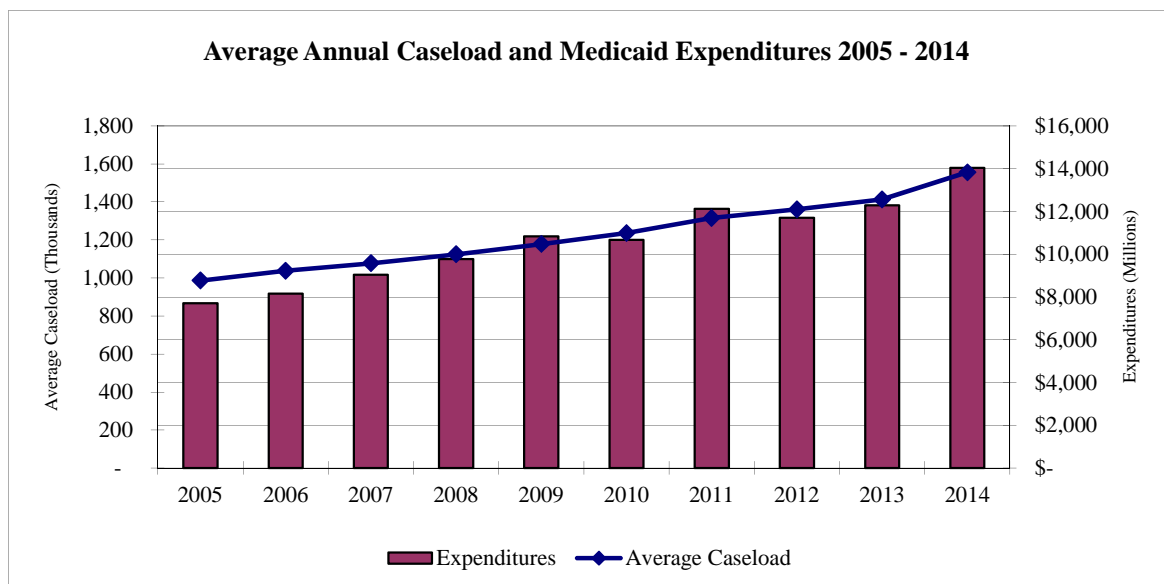
2009	2008	2007	2006	2005	Change - 2014 from 2005
6,277	6,368	6,204	6,177	5,750	32.8%
7,821	8,021	7,993	7,635	7,467	-3.6%
2,955	2,928	2,847	2,686	2,744	-4.2%
22,605	23,322	22,972	22,935	22,855	-5.9%
3,043	2,892	1,903	2,708	2,759	55.9%
844	615	617	651	587	87.2%
13,951	14,242	14,550	13,517	13,152	30.9%
2,314	2,302	2,339	2,264	2,299	-61.2%
13,814	13,651	13,602	13,360	12,807	9.8%
4,650	4,519	4,495	4,301	4,224	17.6%
4,781	4,775	4,689	4,603	4,523	10.3%
<b>83,055</b>	<b>83,636</b>	<b>82,211</b>	<b>80,837</b>	<b>79,167</b>	9.2%
<b>-0.7%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>2.1%</b>	<b>4.0%</b>	

### Average Annual Medicaid Caseload and Medicaid Expenditures - Fund Perspective Last Ten Fiscal Years

(Caseload amounts in thousands, Expenditure amounts in Millions)

Fiscal year ended June 30	Average Annual Caseload	Medicaid expenditures	Average Expenditures per Case
2014*	1,556	\$ 14,035	\$ 9,020
2013	1,413	12,286	8,695
2012	1,361	11,708	8,602
2011	1,315	12,124	9,220
2010	1,263	10,678	8,454
2009	1,178	10,843	9,205
2008	1,124	9,770	8,690
2007	1,077	9,044	8,397
2006	1,038	8,151	7,853
2005	986	7,706	7,815

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\* Includes members in transitional coverage program starting January 1, 2014.

**Massachusetts Road Inventory  
Calendar Year End, Lane Miles by Type  
Last Ten Calendar Years**

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<u>Calendar Year</u>	<u>Interstate</u>	<u>Arterial</u>	<u>Collector</u>	<u>Local</u>	<u>Total</u>	<u>% Change</u>	<u>Total Urban</u>	<u>Total Rural</u>
2013	3,211	15,674	9,058	44,438	72,381	0.16%	85.7%	14.3%
2012	3,212	15,639	9,038	44,379	72,268	0.13%	85.8%	14.2%
2011	3,212	15,051	9,611	44,300	72,174	0.20%	81.1%	18.9%
2010*	3,210	15,047	9,607	44,169	72,033	0.20%	81.1%	18.9%
2009	3,212	14,974	9,589	44,112	71,887	0.30%	81.1%	18.9%
2008	3,212	14,976	9,591	43,893	71,672	0.40%	81.1%	18.9%
2007	3,213	14,993	9,566	43,612	71,383	0.17%	80.9%	19.1%
2006	3,209	14,958	9,567	43,527	71,261	0.31%	81.0%	19.0%
2005	3,202	14,966	9,573	43,303	71,044	0.11%	81.0%	19.0%
2004	3,202	14,929	9,584	43,260	70,967	0.96%	81.0%	19.0%

\*2010 was restated to include both urban and rural roads.

*Source: Massachusetts Highway Department, Bureau of Transportation Planning and Development  
Annual Road Inventory Reports, Lane Miles Table 8. Exclusive of shoulders.*

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**Massachusetts Real Property Owned and Leased  
Annual Inventory, Acreage, Improvements and Square Footage  
Last Ten Years**

Functions / Programs	Survey Year 2014	Survey Year 2013	Survey Year 2012	Survey Year 2011	Survey Year 2010
General Government:					
Total Acreage.....	3,114	3,101	3,039	2,993	2,373
Number of Improvements.....	513	333	279	255	227
Gross square footage.....	10,916,681	9,076,550	7,690,761	7,206,548	6,797,819
Judiciary:					
Total Acreage.....	149	148	148	141	141
Number of Improvements.....	74	73	73	68	68
Gross square footage.....	5,310,049	4,700,920	4,700,920	4,787,564	4,787,564
Energy and environmental affairs					
Total Acreage.....	668,631	652,400	642,799	627,286	623,952
Number of Improvements.....	1,806	2,192	2,191	2,182	2,183
Gross square footage.....	6,507,161	7,287,961	7,283,666	7,295,922	7,299,322
Housing and economic development:					
Total Acreage.....	-	2	2	2	2
Number of Improvements.....	4	5	5	6	6
Gross square footage.....	57,812	68,412	68,412	77,642	77,642
Health and human services:					
Total Acreage.....	5,834	5,829	6,407	6,449	7,196
Number of Improvements.....	907	792	855	866	866
Gross square footage.....	10,995,096	9,759,611	10,923,090	10,834,266	10,809,259
Transportation and public works:					
Total Acreage.....	7,014	6,965	6,972	7,013	6,966
Number of Improvements.....	675	921	919	918	918
Gross square footage.....	1,989,583	4,876,689	4,876,689	4,873,783	4,876,689
Education:					
Total Acreage.....	208	208	208	233	233
Number of Improvements.....	40	43	43	43	43
Gross square footage.....	205,503	272,352	272,352	272,352	272,352
Public safety and homeland security:					
Total Acreage.....	19,166	19,169	19,172	19,158	18,693
Number of Improvements.....	1,083	997	990	991	1,029
Gross square footage.....	14,402,161	12,213,112	12,191,229	12,141,396	12,685,447
Higher Education:					
Total Acreage.....	7,128	7,473	7,254	7,178	7,169
Number of Improvements.....	873	1,009	1,007	987	975
Gross square footage.....	29,666,140	32,594,800	32,523,400	32,144,815	32,117,854
<b>Totals for Commonwealth (exclusive of Component Units):</b>					
<b>Total Acreage.....</b>	<b>711,244</b>	<b>695,295</b>	<b>686,001</b>	<b>670,454</b>	<b>666,725</b>
<b>Number of Improvements.....</b>	<b>5,975</b>	<b>6,365</b>	<b>6,362</b>	<b>6,316</b>	<b>6,315</b>
<b>Gross square footage.....</b>	<b>80,050,186</b>	<b>80,850,407</b>	<b>80,530,519</b>	<b>79,634,288</b>	<b>79,723,948</b>
<b>Percentage Change for Commonwealth:</b>					
<b>Acreage.....</b>	<b>2.3%</b>	<b>1.4%</b>	<b>2.3%</b>	<b>0.6%</b>	<b>2.7%</b>
<b>Improvements.....</b>	<b>-6.1%</b>	<b>0.0%</b>	<b>0.7%</b>	<b>0.0%</b>	<b>0.1%</b>
<b>Gross square footage.....</b>	<b>-1.0%</b>	<b>0.4%</b>	<b>1.1%</b>	<b>-0.1%</b>	<b>1.0%</b>

Source: *Executive Office of Administration and Finance, Division of Capital Asset Management.*  
See <http://www.mass.gov/Eoaf/docs/dcam/dlforms/>

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Survey Year 2009	Survey Year 2008	Survey Year 2007	Survey Year 2006	Survey Year 2005
2,495	1,858	1,681	2,050	2,772
240	163	84	232	300
6,660,792	5,736,028	4,767,751	6,745,962	8,429,827
141	145	135	118	117
69	71	71	68	68
4,826,836	5,080,836	4,889,645	4,351,128	4,884,206
606,662	591,511	586,173	569,282	558,347
2,170	2,162	2,156	2,159	2,168
7,246,280	7,242,870	7,185,678	7,057,840	7,039,038
2	2	2	2	2
6	6	6	6	6
77,642	77,642	77,642	77,642	76,812
7,166	7,259	7,604	7,615	7,311
902	980	1,059	1,001	992
11,214,034	12,270,433	13,371,858	12,333,804	12,251,382
7,050	6,930	6,933	7,217	7,175
915	915	914	910	908
4,876,936	4,876,936	4,856,942	4,845,365	4,812,965
233	233	233	233	233
43	43	43	43	43
272,352	272,352	272,352	272,352	272,352
18,331	18,324	18,319	17,530	17,515
1,028	1,023	1,031	1,026	1,038
12,632,897	12,631,497	12,768,250	12,885,742	13,137,177
7,151	7,149	7,133	7,089	7,138
937	940	932	933	941
31,101,329	31,197,929	30,947,996	30,870,743	30,997,427
<b>649,231</b>	<b>633,412</b>	<b>628,212</b>	<b>611,136</b>	<b>600,609</b>
<b>6,310</b>	<b>6,303</b>	<b>6,296</b>	<b>6,378</b>	<b>6,464</b>
<b>78,909,098</b>	<b>79,386,523</b>	<b>79,138,114</b>	<b>79,440,578</b>	<b>81,901,186</b>
<b>2.5%</b>	<b>0.8%</b>	<b>2.8%</b>	<b>1.8%</b>	<b>0.9%</b>
<b>0.1%</b>	<b>0.1%</b>	<b>-1.3%</b>	<b>-1.3%</b>	<b>3.9%</b>
<b>-0.6%</b>	<b>0.3%</b>	<b>-0.4%</b>	<b>-3.0%</b>	<b>0.6%</b>

**Massachusetts Public Higher Education  
Enrollment and Degrees Conferred  
Last Ten Academic Years**

Academic Year	Fall 2013	Fall 2012	Fall 2011	Fall 2010	Fall 2009
<b><u>ENROLLMENT</u></b>					
<b><u>University System</u></b>					
Undergraduate (FTE).....	48,893	48,136	47,432	48,018	44,543
Graduate (FTE).....	12,442	12,202	12,048	11,734	10,177
<b>System Enrollment.....</b>	<b>61,335</b>	<b>60,338</b>	<b>59,480</b>	<b>59,752</b>	<b>54,720</b>
<b><u>State University System</u></b>					
Undergraduate (FTE).....	35,429	34,773	35,639	36,721	34,129
Graduate (FTE).....	7,704	7,894	6,224	7,227	4,582
<b>System Enrollment.....</b>	<b>43,133</b>	<b>42,667</b>	<b>41,863</b>	<b>43,948</b>	<b>38,711</b>
<b><u>Community College System</u></b>					
Undergraduate (FTE).....	64,584	62,445	64,586	64,971	60,602
	2014	2013	2012	2011	2010
<b><u>DEGREES CONFERRED</u></b>					
<b><u>University System</u></b>					
Certificates (MD's).....	376	426	348	246	329
Associate's.....	96	121	97	100	111
Bachelors.....	11,544	10,910	10,399	9,958	9,362
Masters.....	3,559	3,442	3,360	3,242	3,029
Doctoral.....	502	486	450	414	400
Cert. of Adv. Grad. Study.....	77	62	89	87	79
Post-Bacc. Certificate.....	691	664	659	550	509
First Professional.....	79	103	43	47	-
<b>Total Degrees.....</b>	<b>16,924</b>	<b>16,214</b>	<b>15,445</b>	<b>14,644</b>	<b>13,819</b>
<b><u>State University System</u></b>					
Certificates.....	34	37	29	35	572
Bachelors.....	8,184	8,024	7,722	7,190	6,886
Masters.....	2,478	2,327	2,404	2,376	2,467
Cert. of Adv. Grad. Study.....	114	108	143	116	170
Post-Bacc. Certificate.....	327	371	362	408	362
<b>Total Degrees.....</b>	<b>11,137</b>	<b>10,867</b>	<b>10,660</b>	<b>10,125</b>	<b>10,457</b>
<b><u>Community College System</u></b>					
Certificates.....	3,365	2,929	2,888	3,020	2,770
Associates.....	11,341	10,772	10,404	9,693	9,257
<b>Total Degrees.....</b>	<b>14,706</b>	<b>13,701</b>	<b>13,292</b>	<b>12,713</b>	<b>12,027</b>
<b>Total All Systems - Degrees.....</b>	<b>42,767</b>	<b>40,782</b>	<b>39,397</b>	<b>37,482</b>	<b>36,303</b>

Source: Massachusetts Board of Higher Education. Enrollment information based at the start of the academic year.

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Fall 2008	Fall 2007	Fall 2006	Fall 2005	Fall 2004	Change - 2013 from 2004
42,768	40,806	39,283	38,286	37,598	30.0%
9,460	9,328	8,906	8,549	8,494	46.5%
<b>52,228</b>	<b>50,134</b>	<b>48,189</b>	<b>46,835</b>	<b>46,093</b>	33.1%
33,040	32,106	31,384	30,464	29,051	22.0%
4,495	4,428	4,352	4,258	8,658	-11.0%
<b>37,535</b>	<b>36,535</b>	<b>35,736</b>	<b>34,722</b>	<b>37,709</b>	14.4%
54,228	51,257	49,347	48,555	50,972	26.7%
2009	2008	2007	2006	2005	Change - 2014 from 2005
280	270	268	260	167	125.1%
103	96	117	99	95	1.1%
8,763	8,437	8,191	8,089	8,205	40.7%
2,882	2,808	2,503	2,484	2,588	37.5%
381	390	443	371	389	29.0%
70	86	77	97	88	-12.5%
173	133	146	115	63	996.8%
-	-	-	-	-	100.0%
<b>12,652</b>	<b>12,220</b>	<b>11,745</b>	<b>11,515</b>	<b>11,595</b>	46.0%
605	597	615	556	540	-93.7%
6,621	6,328	6,207	5,885	5,549	47.5%
2,343	2,318	2,201	2,190	2,048	21.0%
157	224	151	179	142	-19.7%
406	347	431	361	369	-11.4%
<b>10,132</b>	<b>9,814</b>	<b>9,605</b>	<b>9,171</b>	<b>8,648</b>	28.8%
2,587	2,495	2,297	2,422	2,278	47.7%
8,549	8,247	7,942	8,024	7,993	41.9%
<b>11,136</b>	<b>10,742</b>	<b>10,239</b>	<b>10,446</b>	<b>10,271</b>	43.2%
<b>33,920</b>	<b>31,986</b>	<b>31,589</b>	<b>31,132</b>	<b>30,514</b>	40.2%

## Calculation of Transfers: Stabilization Fund

June 30, 2014  
(Amounts are in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c, as amended by Section 155 of Chapter 139 of the Acts of 2012, and subsequent acts, which superseded certain parts of Section 5c. It presents information contained in the official books and accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

	General	Children and Families Protection	Commonwealth Transportation	Massachusetts Tourism	Local Capital Projects	Manufacturing	Community College	Total
Budgeted Fund Undesignated Balances.....	\$ 167,787	\$ 1	\$ (102,495)	\$ 22,963	\$ (20,425)	\$ (12,608)	\$ (32,444)	\$ 22,779
Fund Balance Deficit Elimination Transfers Per Sec. 5c of Ch. 29 .....	(148,018)	-	102,495	(19,954)	20,425	12,608	32,444	-
Fund Balances after Deficit Elimination Transfers (Consolidated Net Surplus).....	19,769	1	-	3,009	-	-	-	22,779
Year-end Transfers to the General Fund to Fund Statutory Allocations.....	3,010	(1)	-	(3,009)	-	-	-	-
<u>Disposition of Consolidated Net Surplus per Sec. 242(a) of Chapter 165 of the Acts of 2014, as Amended:</u>								
To the Massachusetts Life Sciences Investment Fund.....	(11,390)	-	-	-	-	-	-	(11,390)
To the Massachusetts Community Preservation Trust Fund.....	(11,390)	-	-	-	-	-	-	(11,390)
Remaining Consolidated Net Surplus to be Deposited in Stabilization Fund per Sec. 242(a) of Ch. 165 of the Acts of 2014, as Amended.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

### Stabilization Balance Reconciliation:

Balance as of July 1, 2013.....	<b>1,556,657</b>
Capital Gains Tax Transfers to Stabilization Fund during FY 2014 per Chapter 29, Section 5G.....	45,457
Judgments and Settlements In Excess of \$10 Million Transferred to Stabilization Fund per Ch. 29, Section 2H.....	414,310
Investment income, certain tax revenues and other recoveries.....	6,414
Change in Market Value from General Fund per Sec.172(b) of Ch. 38 of the Acts of 2013.....	1,712
Less Transfers from Stabilization Fund:	
Investment Income to General Fund per Sec.172(b) of Ch. 38 of the Acts of 2013.....	(7,259)
5% Capital Gains Tax Transfer to the State Retiree Benefits Trust Fund per Chapter 29, Section 5G.....	(2,273)
5% Capital Gains Tax Transfer to the State Pension Liability Fund per Chapter 29, Section 5G.....	(2,273)
Judgments and Settlements In Excess of \$10 million Transferred to the General Fund per Sec. 25 of Ch. 237 of the Acts of 2014.....	(414,310)
To General Fund Per Sec. 172(a) of Ch. 38 of the Acts of 2013.....	(350,000)
Total Transfers from Stabilization Fund during FY 2014.....	(776,115)
Remaining Consolidated Net Surplus Deposited in Stabilization Fund, per Calculation Above.....	<u>-</u>
<b>Stabilization Fund Balance as of June 30, 2014.....</b>	<b><u>\$ 1,248,435</u></b>

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## Calculation Of Transfers: Tax Reduction Fund

June 30, 2014  
(Amounts in thousands)

This statement is prepared pursuant to Chapters 29 Sections 2H and 2I of the Massachusetts General Laws, as amended. It is prepared on the statutory basis of accounting and presents information contained in the official books and accounting records of the Commonwealth. Supporting information is presented in individual schedules, as indicated, and in the Financial Section of this report.

The computation is as follows:

Part 1: Comparison of Stabilization Fund, after current fiscal year transfers,  
to 15% of budgeted revenues and other financial resources:

Undesignated fund balance in the Stabilization Fund.....	\$ 1,248,435
Allowable Stabilization Fund balance.....	<u>5,320,973</u>
Stabilization Fund excess, if any, transferable to Tax Reduction Fund.....	<u>\$ -</u>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance.....	\$ 1,248,435
Transfer to Tax Reduction Fund.....	<u>-</u>
Stabilization Fund balance after transfer to Tax Reduction Fund.....	<u>\$ 1,248,435</u>

Part 3: Status of Tax Reduction Fund after transfers:

Tax Reduction Fund balance.....	\$ -
Transfers from Stabilization Fund.....	<u>-</u>
Tax Reduction Fund balance after transfers.....	<u>\$ -</u>

See Independent Auditor's Report

## MASSACHUSETTS GENERAL INFORMATION

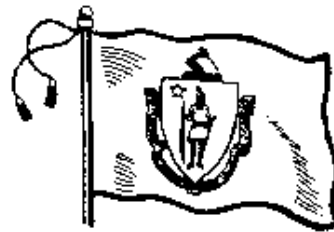
**Admitted to Union (6<sup>th</sup> State):** 1788  
**Population:** 6,692,824

**Capital:** Boston  
**Nickname:** Bay State

**The State Seal**



**The State Flag**



The State Seal, adopted by Governor John Hancock and the Council on December 13, 1780 and made official by the General Court on June 4, 1885, is circular and bears a representation of the arms of the Commonwealth encircled with the words "Sigillum Reipublicae Massachusettensis" (Seal of the Republic of Massachusetts). The arms, according to legislative enactment, consists of "a shield having a blue field or surface with an Indian thereon, dressed in a shirt and moccasins, holding in his right hand a bow, and in his left hand an arrow, point downward, all of gold; and in the upper corner of the field, above his right arm, bent at the elbow, clothed and ruffled, with the hand grasping a broadsword."

The State Flag is white, bearing on both sides a representation of the coat of arms. It was adopted in its final form in 1971; before that, the obverse side depicted a pine tree.

**The State Flower**



**The Mayflower**

**The State Fish**



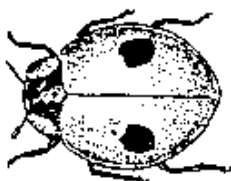
**The Cod**, a soft-finned fish, usually 10-20lbs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

**The State Bird**



**The Black Capped Chickadee**

**The State Insect**



**The Lady Bug**

**The State Tree**



**The American Elm** was adopted as the official tree March 21, 1941 to commemorate the fact that General George Washington took command of the Continental Army beneath one on Cambridge Common in 1775.

**The State Dog**



**The Boston Terrier**, the first purebred dog developed in America (1869), is a cross between an English bulldog and an English terrier.

**Beverage:** Cranberry Juice  
**Dessert:** Boston Cream Pie

**Muffin:** The Corn Muffin  
**Cookie:** Chocolate Chip

**Horse:** The Morgan Horse  
**Bean:** Navy Bean